The bitumen glut has a silver lining
Seizing Alberta’s upgrading opportunity and creating long-term prosperity

The low price of bitumen has a silver lining: a low price means upgrading oil sands here in Alberta makes good economic sense.

Upgrading accomplishes all our goals: more jobs for Albertans, better prices for our oil sands products, and a more reasonable pace of oil sands development.

We have an opportunity to build a diversified and sustainable economy, so let’s seize it.

January 2013
What is the bitumen bubble?

A large amount of our royalties come from oil sands bitumen, not from natural gas or conventional oil.

Bitumen — or, as the industry often calls it, Western Canada Select — is not upgraded or processed, it is the rawest form of oil sands products. Alberta producers are selling millions of barrels of WCS per day on the North American market.

The problem is that, our customers don’t really want bitumen. Bitumen is harder for refineries to process, and refineries need special equipment and expensive extra processes to make it into gasoline, diesel, or jet fuel.1

But we’re flooding the market with bitumen. The Government of Alberta approves every oil sands project that crosses its desk. They don’t require upgrading to synthetic crude oil before the bitumen leaves the province.

Bitumen is not oil

As a consequence, we are selling the wrong product.

There is an alternative. We could be producing Synthetic Crude Oil if we required oil sands companies to upgrade bitumen before it leaves the province. Synthetic Crude Oil sells for just as much as conventional oil.

When the government and their friends in the oil industry talk about the ‘differential,’ or ‘price spreads,’ and low bitumen prices, what they are really saying is: the market is telling us they don’t want an unprocessed, raw product.

And yet, government and industry aren’t listening to the market, or to the majority of Albertans who want to see good-paying, value-added jobs stay in the province and a responsible pace of oil sands development.

Synthetic crude oil vs. WCS

If Alberta was selling Synthetic Crude Oil instead of raw bitumen, producers would be earning $38/barrel more for the product.2

Synthetic Crude Oil trades at a rate that is almost exactly that of WTI. Recently, SCO has even traded higher than WTI.3

The market is telling us we’re selling the wrong product, but the Government of Alberta is not listening. By approving every oil sands project that comes across its desk, and not requiring upgrading in Alberta, we’re pumping out more of the wrong thing, and shipping out all the good oil sands jobs with it.

Broken Conservative promises

The Conservatives like to tell Albertans they want more upgrading — in fact, they’ve promised that 65 per cent of our bitumen should be upgraded before it leaves the province.4

The reality is that barely half of our bitumen is currently being upgraded. In the next ten years, that number is forecast to plummet to 26 per cent.5

If we keep going down this road, Alberta’s energy strategy will be purely ‘rip it and ship it,’ with no plan for keeping good-paying, value-added jobs and industry here. We’ll be shipping tens of thousands of jobs down pipelines to China and the United States every year.

Even worse, we’ll continue to sell a low-priced product instead of moving up the value ladder.

The price is right for upgrading

The Government of Alberta has not kept their long-standing promises on upgrading because they have instead chosen to take their marching orders from industry.

Industry uses a well-worn excuse: they say upgrading isn’t economically viable, because the price of bitumen was too high.

That excuse has evaporated. The time could not be better for investment in upgrading and even refining.
The Government’s own experts agree
Refining here is the way to deal with the differential

In internal documents, the Government of Alberta Department of Energy has concluded that “lower cost bitumen-derived feedstocks would help sustain Alberta’s World-class petrochemical industry.”

The Government of Alberta has commissioned study after study on upgrading and refining and they never fail to conclude that petrochemical industries built “near the sources of economical feedstock” are the most successful, and that “Alberta could easily fall into the third category” as long as the price for feedstock (i.e., bitumen) remained low.

Upgrading puts money on the table

The oil industry’s own figures show Albertans lose 48 per cent of the value of every barrel of bitumen by sending the jobs and industry down the pipeline to the United States and China.

Without upgrading and refining, Albertans also lose 57 per cent of the GDP potential and 57 per cent of oil sands jobs.

These are not figures generated by the Alberta Federation of Labour — they’re industry’s own numbers, generated by the Canadian Energy Research Institute.

Seen in this context, it is no surprise Alberta has a revenue crisis. We’ve put all our eggs in the bitumen basket, but we’ve let the oil industry dictate how they’ll hatch.

“Light oil must trade at a much higher price relative to heavy oil in order for upgrading to be economic ... What will support refining and upgrading is either a higher price for synthetic crude or a lower price for bitumen — one or both.”

- Robert Mansell, Enbridge expert witness
  Northern Gateway Joint Review Panel Hearings
  Sept. 5, 2012

How Many Jobs Are At Stake?

Tens of thousands of jobs for Albertans can be created with more upgrading.

A single upgrader employs up to 2,000 workers. The eight upgraders that were slated for Edmonton were supposed to employ up to 12,000 people after construction. That is a massive — and stable — workforce.

Jobs in upgrading and refining are by definition good jobs. They are not short-term construction jobs — they are highly skilled and come with higher-than-average salaries.

If the bitumen slated for export via the Keystone XL pipeline was instead upgraded and refined in Canada, it would create 18,000 permanent, direct and indirect jobs across the country.

If the bitumen slated for export via the Northern Gateway pipeline was instead upgraded and refined in Canada, it would create 26,000 permanent, direct, and indirect jobs across the country.

Instead, the Northern Gateway pipeline will, according to Enbridge’s own evidence, give Alberta 24 permanent jobs and 204 in British Columbia. It’s not a fair trade.
Bursting the bitumen bubble: What the Redford Government must do immediately

Stop breaking promises
Listen to the majority of Albertans who want to keep good-paying oil sands jobs in Alberta. Undertake immediate efforts for a truly value-added oil sands strategy, including new commitments to upgrading and refining.

Make upgrading a condition of project approval
Instead of allowing oil companies to do whatever they want with the resources that belong to us, require upgrading as a condition of project approvals. Only approve projects that come with iron-clad guarantees of investment in upgrading, and actually enforce existing commitments to upgrading, such as the Fort Hills upgrader.

Expand the bitumen royalty in-kind program immediately
We now have a good example of what government could do if they were inclined to exercise leadership on upgrading — the North West Upgrader. Upgrading can be made economic with the right policy environment ñ so letís stop making excuses and do more of it.

Be bold, and build on the Lougheed Legacy
Establish a public corporation — similar to the Alberta Energy Corporation — to partner with the private sector and invest in upgrading facilities. Lougheed’s approach to the petrochemical sector was correct, and build a World-class industry. In more recent times, Newfoundland and Labrador Premier Danny Williams took a similar approach, and transformed his province into a ‘have’ province for the first time in its history.

Footnotes:

3 Ibid. See original link for graphs.
4 Legislative Assembly of Alberta, Hansard, March 16, 2009
8 Todd Crawford, Conference Board of Canada. Canadaís Petroleum Refining Sector; An Important Industry facing Global Challenges, October 2011.