Submission by the

Alberta Federation of Labour

to

the Standing Committee

on Alberta's Economic Future

on

The Study of the BRIK

(Bitumen Royalty-in-Kind) Program

Response to outstanding questions:
Hansard meeting transcript No. 28-1-7
pages EF-71 and EF-72

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March 19, 2013

Q1: Where does Labour stand, particularly on getting to the west coast? What are the main issues? What are the main concerns? What are the main recommendations for us to get a pipeline to the west coast?

A1: Labour in British Columbia and Alberta are united against the Northern Gateway Pipeline. The AFL and BCFL agree that bitumen from Alberta's oil sands should be upgraded and refined in Alberta.

The Alberta Federation of Labour has intervened against three bitumen export pipelines: the Alberta Clipper, Keystone XL, and Northern Gateway.

An analysis for our submission to the National Energy Board on the Keystone XL showed the export of at least 40,000 Canadian jobs as a result of that pipeline.

Enbridge's evidence before the Joint Review Panel on the Northern Gateway Pipeline shows refinery output stagnating in western Canada as a result of the Northern Gateway pipeline. This is because the Northern Gateway pipeline, in combination with Keystone XL, will completely re-write the rules of the Canadian petroleum industry. The volumes of diluted bitumen that will be exported will render our own refineries less productive.

In fact, this has already happened. The Burnaby refinery, which receives diluted bitumen via the Trans Mountain Pipeline, had to halt production for months in 2012 because the refinery was out-bid by Chinese oil companies for the bitumen feedstock. This is a situation that is likely to become much worse if NGP is approved; only it will spread to the upgraders and refineries in Alberta as well.

The Alberta labour movement, representing some 160,000 workers, including 25,000 in energy and energy-related construction, has taken a clear position against bitumen export pipelines. We do not oppose pipeline infrastructure if it meets rigorous environmental standards and fulfills mutually agreeable community and First Nations consultations standards. But we believe that pipeline infrastructure should be in the public interest — just as the National Energy Board Act (Section 12) demands. For an export pipeline to be in the public interest in 2013, we believe it ought to be transporting upgraded products, at the very least, if not refined products. In other words, we believe Canada and Alberta should emulate a position similar to that of the United States, where the US federal government has banned the export of crude oil for reasons of national security and the national interest.

The Alberta Federation of Labour and our main energy affiliate, the Communications, Energy, and Paperworkers Union, do not oppose the reversal of Enbridge's Line 9B, a proposal currently before a National Energy Board review. The Line 9 reversal would take Alberta's diluted bitumen to upgrading and refining facilities in Ontario and Quebec.

The Alberta labour movement takes the position that Canadian energy security and long-term prosperity; built on a foundation of a vibrant value-added sector, requires public sector leadership. We have worked with the 29 Alberta unions that are affiliated to the AFL to adopt this position. We share that position with national counterparts, and counterparts in other provinces.

In sum, the Alberta labour movement believes vertically integrated oil companies based in the United States or China should not be expected to put Albertans' or Canadians' economic, social, or environmental security above their own profits. This is up to governments to carry out, and the labour movement is united in their request that governments exercise this kind of leadership.

Risks with Export-Only Oil Sands Development Model

The Alberta Federation of Labour submits that the Government of Alberta is exposing itself to unnecessary risks with the reliance on an export-only economic development model for our bitumen resources. As we discussed in our recent report on foreign ownership in the oil sands, **"China's Gas Tank,"** ***(please see attached PDF)***, Alberta will be giving up a significant amount of marketing power over the price of bitumen with the NGP and KXL pipeline projects. This is not the opinion of the Alberta Federation of Labour; it is the published view of Alberta's Department of Energy. The risks to the Alberta treasury are great, and the AFL believes that failure to recognize this risk will result in more austerity budgets like Budget 2013.

Consider the following analysis by Alberta's Department of Energy, dated 2007:

> **(6) Price Risks**
> From this analysis of prices, it is apparent that there are several price risk factors for Alberta oil sands producers and the Crown. Price volatility for bitumen, especially the extreme low prices that have been witnessed several times over the past several years, is the most obvious risk. This, of course is also a revenue risk for the resource owner.
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> Other risks vary with a given company's strategy. If, for instance, a company decides to ship blended bitumen without any upgrading, that company runs the risk of poor bitumen prices, high diluents costs, and less than adequate diluents availability.
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> …For SCO, diluents risks are eliminated and price volatility generally tracks light sweet crude, though this could change with increasing volumes. For SCO producers, market access is critical consideration, though still not as critical as for bitumen blend.

For the Province, the variety of risk mitigation strategies that can be pursued by industry is generally not available. Therefore Alberta is absorbing a higher share of price risk, particularly where royalty is based on bitumen values.

Another important risk for the Province comes from valuation of the bitumen. Due primarily to volume of non-arms length sales bitumen prices are generally less transparent than crude prices. Downstream integration and upgrading are causing more and more prices to become non-arm's length transfer prices, thus eroding the confidence the Province can have in market pricing. This underscores the need for the Province to develop a reliable framework to value its bitumen.[1]

Getting to the West Coast

A pipeline to the west coast already exists. It is called the Trans Mountain Pipeline. Trans Mountain's capacity is currently at 300,000 barrels per day, of which about 75,000 barrels are allocated for export via tanker. The TMX carries Alberta oil products, including refined, semi-refined, and raw products like diluted bitumen to Burnaby and Washington State.

The claim that Alberta is "landlocked," a claim we hear constantly in favour of the Northern Gateway pipeline, is patently false.

TransCanada is applying to have the Trans Mountain Pipeline system expanded to 890,000 bpd. The company reports their application with the National Energy Board will be filed by end-2013.

Q2: Is there a role beyond an Alberta Crown corporation perhaps to do this and to be able to accept investment from private industry as well?

A2: Yes, there is a role beyond a Crown corporation to invest in upgrading in Alberta. As noted in the AFL's submission to the Committee, the North West Upgrader project has shown us upgrading in Alberta is economically viable for the private sector. According to North West's analysis, the product mix produced at that plant will get 132 per cent of the price of WTI, as opposed to about 80 per cent if blended bitumen were to be exported. The BRIK program simply guarantees feedstock to private investors.

An Alberta Crown Corporation would act in its own interest; however, much like the Alberta Energy Corporation did in the 1970s. It would partner with industry where appropriate, but would be financed by the people of Alberta from royalty revenues. This would ensure the company's autonomy and that it would act in Albertans' interest first and foremost.

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File: G:\Research\Briefs\2013\2013 Mar 19 AFL Submission of outstanding questions to Standing Com. on AB's Economic Future Study
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[1] Alberta Department of Energy, Appendix "A" – Technical ReportOS#1 Markets and Pricing for Alberta Bitumen Production, Alberta Royalty Review, 2007 Oil Sands Economics and Royalty Series, pages 20-21