

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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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?

