28. Ensuring the Future of Canadian Oil and Gas

Issue

Canada has an abundance of natural resources that generate direct wealth for Canadians through production and export. Increasingly, these commodities represent a large contribution to Canada's economic growth; however, Canada still spends $26 billion on oil imports annually. Access to markets for commodities, specifically oil and gas, represents a significant obstacle in Canada's ability to secure a competitive position in the global economy. Further, failure to develop these projects leads to negative impacts on Canadian businesses and ultimately their families.

Background

The Canadian oil and gas industry directly employs 550,000[1] workers across the country. This production generates approximately $18 billion in annual taxes and royalties, in turn directly funding many public services[2]. This highlights the importance of the oil and gas industry for the wellbeing of Canadians. For every one job created in the oil sands, one indirect and 1.5 induced jobs are created throughout Canada[3]. The severe drop in oil prices since 2013 has left Canada in a vulnerable position.

Traditionally, the United States has been Canada's largest buyer, but their recent supply surplus has positioned them to energy independence and exportation. What this means is that Canada is finding itself in an increasingly competitive relationship with its biggest trade partner. In fact, in 2010 Canada imported only 6% of its oil from the United States, but that number jumped to over 60% of the share in 2015[4]. With oil production located in the prairies, and no cost effective means to transport it east, Canada needs to develop pipeline infrastructure to gain leverage in supplying our own citizens and new customers. This will prevent us from exporting at a discounted price and purchasing at world prices.

Regardless of the current price of oil, Canada still has to sell its oil and gas at a discount due to the lack of market access. This equates to $18 to $19 billion that could otherwise be gained by selling directly to the Asia-Pacific market. Loss of this revenue puts severe pressure on all Canadians, as evidenced by job losses and the strain on social services currently being experienced across the nation.

A key piece of critical infrastructure that is "shovel-ready" is the Trans Mountain Expansion Project (TMEP). This pipeline runs from Edmonton to the West Coast, and is a key component in getting Canadian oil to tidewater – and ultimately international markets. The development phase of this expansion will boost Canada's GDP by $13.3 billion in the first 20 years of its operation[5]. Total tax payments from the construction and operation of TMEP will total $18.5 billion to Canada, with $2.1 billion to B.C., $9.6 billion to Alberta and $6.8 billion to the other provinces and territories[6]. This will bring 58,000 person-years of employment, with the majority of these being well-paid, family supporting jobs.

A 4,600 kilometer pipeline that will transport 1.1 million barrels of oil per day to Eastern Canadian refineries is the Energy East Project. Moving product east will generate an estimated $11.5 billion in GDP for the Canadian economy during the construction and development phase[7]. The Energy East Project is suspected to take 7 years to complete with 14,000 well-paid direct and indirect jobs across the nation[8]. This pipeline would reduce the current reliance and intensity on rail shipping to the east, therefore reducing the overall cost of getting this resource to market.

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[1] Petroleum Services Association of Canada "Facts about Canada's Oil and Natural Gas Industry," accessed May 4, 2016, www.oilandgasinfo.ca/jobs .
[2] Ibid.
[3] Jeff Gaulin, "The State and Future of Canada's Oil and Gas Industry" *Canadian Association of Petroleum Producers* Presentation to Lethbridge Chamber of Commerce, April 28, 2016.
[4] Peter Tertzakian, "Like a rocky romance, the oil relationship between Canada and the U.S. is complicated", accessed May 4, 2016, http://business.financialpost.com/news/energy/peter-tertzakian-column?_lsa=36f5-69c9 .
[5] Kinder Morgan "Trans Mountain", accessed May 6, 2016, https://www.transmountain.com
[6] Ibid.
[7] TransCanada "Energy East Pipeline", accessed May 6, 2016, http://www.energyeastpipeline.com/
[8] Ibid.

Additionally, this would decrease Canadian dependence on American pipeline infrastructure, leading to greater control for Canadian producers and citizens.

Enbridge is currently pursuing the approval and construction of the Norther Gateway pipeline from Bruderheim, Alberta to Kitimat, B.C. This pipeline is necessary to connect to the Asia-Pacific market, while simultaneously bringing significant economic benefits to Canadians. Estimated at $6.5 billion, this project will provide thousands of well-paid jobs with an anticipated impact of $300 billion to Canada's GDP over the next 30 years[9]. From a competitive standpoint, the ability for Canadian oil producers to have direct acce3ss to tidewater through cost effective infrastructure would positively benefit all Canadians.

Canadian oil is predominantly transported by railcar, which, under current infrastructure circumstances, is expected to increase by 44% in 8 years[10]. Looking at the costs of transport, rail is twice as expensive as compared to pipeline transport, and 4.5 times more susceptible to a spill[11]. Taken alone, this lack of pipelines acts as a barrier for Canadian oil and gas companies trying to get their product to both the West and East coasts, thus impacting the overall feasibility of supplying Canadians and having tidewater access to additional markets.

Currently, multiple companies are prepared to develop the above pipeline projects and have the private capital ready to provide thousands of jobs, taxes, and economic growth across Canada. Our nation must take action to position our oil as competitive and accessible to foreign buyers and Canadian consumers coast to coast. Failing to do this will remove the leverage Canada has as a seller, and will severely hurt the long term stability and relevance of the Canadian economy.

Ultimately, in an increasingly competitive global oil and gas market, Canada needs to take action. The United States has moved from being a reliable customer to seeking energy independence through exportation of oil to international markets, particularly Canada. This is why Canada needs to develop its own reliable infrastructure to make sure all Canadian have access to a stable supply of oil.

Recommendations

That the federal government:

1. Eliminate barriers to, and facilitate the use of, Canada's natural resources in Canada's oil and gas supply chain by developing infrastructure that will ensure Canadian input may be used in all regions of the country.
2. Ensure regulatory certainty and expedite the environmental assessment of pipeline projects as is currently in front of the National Energy Board.
3. Facilitate the development of pipeline infrastructure to ensure Canadian oil can be delivered to tidewater and sold on global markets.
4. Allow the export of oil to overseas markets through any tanker transport that meets the safety and environmental standards applied to moving oil through Canada's established East and West Coast ports.

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[9] Enbridge "Gateway Facts", accessed May 6, 2016, http://www.gatewayfacts.ca/

[10] Susan Noakes, "Oil-by-rail shipments set to boom, study find" *CBC News*, June 11, 2015, accessed May 4, 2016, http://www.cbc.ca/news/business/oil-by-rail-shipments-set-to-boom-study-finds-1.3110022 .

[11] James Conca, "Pick Your Poison For Crude – Pipeline, Rail, Truck Or Boat" *Forbes*, April 26, 2014, accessed May 4, 2016, http://www.forbes.com/sites/jamesconca/2014/04/26/pick-you-poison-for-crude-pipeline-rail-truck-or-boat/#3048e5245777 .