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Securing the Benefits of Trade to North America's Energy & Agricultural Heartland

The Oil Sands That Bind

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[National Post](#)

September 2, 2008

A significant portion of recent media coverage on the Alberta oil sands has centered on two themes: the rise of the Canadian dollar tied to increasing oil prices and environmental issues. However, there is another side of oil sands development that has not received as much attention, but has the potential to provide a lasting benefit to Canadians: the way oil sands strengthening the bonds of Confederation. Direct benefits include an increase in job creation and Gross Domestic Product (GDP) -- not just in Alberta, but right across the country --and greater transfer payments from Alberta.

Our oil sands are an important strategic asset for all Canadians. We have the advantage of being a resource-rich country in an increasingly resource-short world. Our nation has a wealth of sought-after commodities, such as uranium, potash, iron ore, natural gas, hydro-electricity and, notably, oil, given Alberta's massive oil sands reserves. Canada boasts the world's second largest oil reserves at 179 billion barrels -- second only to Saudi Arabia's 264 billion barrels. Of Canada's total proven and recoverable reserves, 97% are found in Alberta's oil sands. And, while efforts are escalating to build up renewable power sources, the world will remain heavily dependent on fossil fuels for the next few decades. In its 2007 World Energy Outlook, the International Energy Agency concluded that most of the anticipated increase in non-OPEC production after 2015 would be from non-conventional sources, mainly Canadian oil sands.

Currently, energy export receipts are sustaining Canada's positive merchandise trade balance. Our current and potential oil production is supporting the Canadian dollar, but there are other factors behind our dollar's rise, including low inflation and substantial fiscal repair. The strength of our dollar when central Canada's manufacturing sector is already grappling with a stumbling U. S. economy, intense overseas competition and high oil prices, is certainly difficult. Yet potential adjustments for Ontario's and Quebec's manufacturers, such as exploring new global markets and increased investment to become more productive and energy-efficient, will be easier to accomplish when the Canadian economy is in forward gear. Massive oil sands investments, estimated by the Alberta government in April at close to \$170-billion within the next decade, will be key to national growth. A stronger Canadian dollar offers consumers and business increased purchasing power in the global marketplace and highlights Canada as a stable theatre for investment. Just as employee turnover is typically lower at highly profitable companies compared to poorly performing enterprises, low unemployment and a rising currency should give Canadians confidence in their country.

The economic impact of the oil sands stretches across Canada. A study in October, 2005, by the Canadian Energy Research Institute estimated that of the total increase in GDP from development and production activities, 89% remained in Canada. Within that 89% share, Ontario's portion was 11%, Quebec's 1%.

In terms of employment generated, 83% remained within Canada, with 16% in Ontario and 2% in Quebec (not to mention the opportunities for many Quebec workers who have chosen to move to Alberta). Moreover, their calculations indicated that the federal government claimed 41% of total revenues, and Alberta 36%. Money can, in part, be the glue that helps keep a country together. And Alberta is a major contributor to our federation. The latest data available, for 2005, indicate that Alberta contributed \$30-billion to federal coffers and received \$17-billion back in federal expenditures, resulting in a \$13-billion net contribution. Though Ontario's net contribution in 2005 was larger, at nearly \$21-billion, on a per capita basis each Albertan's net contribution was almost \$4,000, compared with just less than \$1,700 from each Ontario resident. Moreover, Alberta's net contribution has climbed steadily, rising from just \$500 per capita in 1995. As economic power has become more dispersed in Canada, Albertans have contributed to strengthening the federal transfer

system. This rise in Alberta's financial strength should improve Canadian unity because dispersing economic power in large countries can increase political stability. Up until the rise of the oil sands, for the entire history of Canada, two provinces dominated not only the political, but also economic agenda of the country. Far flung unions or federations that are dominated by relatively small geographic centres have failed for centuries. Just look at the Roman Empire, the British Empire and the Soviet Union (although Canada's political institutions are dramatically different). Frequently, the outlying regions rebel over time against the economic and political centres.

Conversely, the United States has enjoyed tremendous national unity in part because of its geographically diverse economic power. The U. S. has four corners of economic power (New York, east; California, west; Illinois, north and Texas, south). The top 10 Fortune 500 companies ranked from largest to smallest, are located in Arkansas, Texas, California, Michigan, Texas, Connecticut, Michigan, New York, West Virginia and Texas.

In Canada, the economic migration over the last decade from east to west, driven largely by the oil sands, has been breathtaking. Assuming BCE is privatized, for the first time in history, more than 50% of the equity value of the Toronto Stock Exchange will be headquartered in the west. If you type in "Alberta Oil Sands Environment" on Google, about 700,000 items appear, with eight of the first ten focusing on the project's negative potential impact on the environment. However, in recent years, environmental concerns have prompted significant progress, with policies restricting water use, recycling waste materials and capping toxic emissions. With respect to the oil sands' impact on the native landscape, oil sands leases are being reclaimed with ultimately the vast majority of the land returned to native vegetation. According to Rick George, CEO of Suncor, the oil sands have removed only 0.01% of Canada's boreal forest.

Without a doubt, developing the oil sands in a low carbon environment will be challenging. Alberta's Climate Change Plan recognizes that its GHG emissions will rise in the near-term with the increase in oil sands production planned. To minimize this increase, Alberta, as of mid-2007, requires its largest emitters to reduce their GHG emissions intensity by 12%, or if this is not possible, to purchase credits in Alberta-based environment offset projects or contribute to the Province's Climate Change and Emissions Management Fund. Longer-term, a variety of solutions to reduce the oil sands' carbon footprint are being pursued. Most notable are the efforts to develop carbon capture and sequestration on a feasible, commercial scale with the support of all levels of government and industry. In fact, CCS, as it is known, may eventually prove to be another area of global leadership for Canada. Yes, challenges remain on the development of the oil sands. But it is important to keep these challenges in perspective. Alberta's burgeoning oil sands industry is a driving force in the Canadian economy, key to our nation's future. The oil sands are an incredible gift, not only to Alberta, but for all of Canada. - Adam Waterous is vice chairman & president of Scotia Waterous.

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