Sign Up with the Oilfield News Online

# Oilfield NEWS

www.oilfieldnews.ca



**Published By: NEWS COMMUNICATIONS since 1977** **Wednesday Oct 12th, 2016**

## PIPELINE MEMO GUIDING TRUDEAU GOV'T 'RIDDLED WITH MISTAKES'

Economist Allan tells Natural Resources it was 'dangerously misled' four ways.

A Natural Resources memo extolling the economic benefits of more bitumen pipelines for Canada is "riddled with factual and analytical mistakes" that could "dangerously mislead" elected officials and the public, says an economist who has pored over its claims.In a detailed 10-page letter, B.C. economist Robyn Allan has warned Jim Carr, minister of Natural Resources, that the memo's conclusions are "unreliable and yet, based on recent public statements, you have adopted them to conclude new pipelines, such as Trans Mountain's expansion, are necessary."Trans Mountain is one of four proposed pipeline projects, controversial for safety and climate change concerns, currently under consideration.Allan's letter documents a series of major errors in the February memo titled "Economic Benefits of Pipelines." The memo wasn't released until July due to a Freedom of Information Request. Allan, who served as president and CEO of the Insurance Corporation of British Columbia and as senior economist for B.C. Central Credit Union, analyzed the document in September.The memo to the minister contends that Canada's oil pipelines are currently operating at "over potential"; that they need one million barrels of new capacity by 2020; that lack of tidewater access has cost the economy billions and that Asian markets are "fast growing."Yet the facts support none of these claims says Allan, who has long questioned the economic argument for expanding bitumen production in an era of low and volatile oil prices. Allan asserts these errors:1. Not true that pipelines are operating beyond potential.The memo states that Canada's pipelines were operating at fullest potential in 2014. But it omits the ongoing problem of leaking and faulty pipelines and its dramatic impact on pipeline capacity.After Enbridge's disastrous billion-dollar Kalamazoo bitumen spill in 2010, the National Energy Board imposed a variety of pressure restrictions on aging export lines that temporarily constrained capacity between 2010 and 2014 until leaky infrastructure such as Line 6B were rebuilt. The majority of these restrictions have now been removed.The memo, which makes no mention of climate change or its impact on oil pricing and production, also uses "stale-dated projections" about available oil for export from a National Energy Board 2016 report. That report did not take into account delayed or cancelled oil sands projects due to low prices. Nor did it address the impact of climate change policies on the need for more pipelines.In fact industry has lowered future oil sands projections by 2.7 million barrels a day due to deferred or cancelled projects announced between January 2014 and September 2016.2. False to inflate future need by nearly a million barrels a day.The memo forecasts oil production will grow from 3.9 million to 4.9 million by 2020 and that therefore the country needs a pipeline to move an additional million barrels of oil.The memo, however, confuses total Canadian oil production with bitumen available for export from Alberta and thereby inflates the need for pipelines, writes Allan.Once you subtract Atlantic oil production and oil used by refineries, argues Allan, "3.0 million barrels a day of Western Canadian oil production was in search of transportation capacity for export in 2014 — 900 thousand barrels a day less than 3.9 million as claimed in your briefing memo."As a consequence, "One million barrels a day of additional pipeline capacity is not required by 2020 as asserted in the memo."Two recent government assessments support Allan's conclusion.A 2016 statistical study by the Alberta Energy Regulator calculated that rail could handle any further oil export needs by 2025.A Federal Department of Finance memo emphasized that the global "low oil price environment" meant there was sufficient pipeline capacity until 2025.Energy analyst David Hughes also calculated earlier this year that no new pipelines are actually needed if Alberta keeps its promise to cap oil sand growth and emissions at 100 megatons a year.



The energy-intensive mining project, Canada's largest single source of emissions, now emits 68 million tons a year.3. Wrong to conclude lack of port outlets suppresses Canadian oil prices.Finally the memo states that a "lack of infrastructure to access global markets led to a significant differential between North American and global prices from 2011-2013."But much of this global market access already exists. Allan notes that "crude oil production in Atlantic Canada has marine access to global markets and that western Canadian crude oil has access to global markets by way of Trans Mountain to the Westridge marine terminal." That access existed as early as 1956.Since 2011 the National Energy Board has also given Texas-owned Trans Mountain pipeline a guaranteed 79,000 barrels access a day at the Westridge terminal. But the industry never fully used it. In fact, bitumen exports to non-U.S. markets declined between 2011 to 2013."According to NEB commodity statistics of crude oil exports, an average of 9.5 thousand barrels a day of diluted bitumen was exported to non-U.S. markets in 2012 and an average of 7.5 thousand barrels a day in 2013. In 2010, 9.6 thousand barrels a day of diluted bitumen was exported to non-U.S. markets."4. False to say Asian markets for oil sands crude are growing.There is simply no Asian market for Canada's carbon-intensive heavy oil at this time, added Allan in an interview."We have tidewater access and it is not being used... The world doesn't want or need Alberta's dirty oil."The memo also makes no mention why bitumen routinely commands lower prices than conventional oil. According to the U.S. Energy Information Administration, Canada's poor quality bitumen sells at $15 to $20 discount for a reason: it "has to be transported over a longer distance to refineries and — because of its density and quality — it is more difficult to process into petroleum products."Building more pipelines or getting bitumen to global markets does not change the poor quality of the resource or move it closer to refineries, explained Allan.In conclusion, Allan noted in her letter that "NRCan staff should have been aware of the issues to provide you with a much more sober assessment of the impact of Trans Mountain's expansion on the Canadian economy. Instead, you were given egregiously overstated conclusions that there is an urgent need for one million barrels a day of new pipeline capacity."Allan sent the letter through Carr's chief of staff on September 14. "I was told they would get back to me and I'm still waiting."In an interview Allan noted that neither the federal government nor the NEB in any pipeline hearing have ever fully considered what impact the approval of additional Canadian oil exports might have on global market prices."If you increase the supply, the price will fall. That is economics 101."Many oil analysts, such as Jeff Rubin and Art Berman, generally agree that increased production from extreme and high cost resources such as fracked oil from North Dakota and steamed bitumen production from the oil sands all played a significant role in the fall of oil prices over the last two years due to overproduction. Low oil prices mean that many bitumen miners and oil frackers are losing money because current prices do not cover their high costs by as much as $30 a barrel.After the Fort McMurray catastrophic wildfire took nearly a million barrels of bitumen production off market, the global price of oil rose significantly."Yet, the Canadian government wants to pump this crude when it is environmentally, economically and socially unwise to do so," added Allan."How can the Canadian government talk about approving the Trans Mountain pipeline without doing the public review? They promised to redo it but haven't. They are now relying on facts and projections that don't exist in reality."

## CHAD HIGH COURT FINES EXXON-LED OIL CONSORTIUM $75 BILLION

Chad's high court has ordered an oil consortium led by Exxon Mobil Corp. to pay a fine of more than $75 billion after the country's finance ministry accused it of not paying royalties. Exxon spokesman Todd Spitler said Thursday that Exxon disagrees with the ruling and is "evaluating next steps."Chadian officials were not immediately available to comment on the ruling or the fine's size, which is several times the country's GDP. The World Bank says that was about $10.8 billion last year."This dispute relates to disagreement over commitments made by the government to the consortium, not the government's ability to impose taxes," Spitler said.Exxon and its partners, including Malaysian state oil company Petronas, filed for arbitration in July with the International Court of Arbitration in Paris over an exemption from export duties on crude production. They said the exemption was included in the consortium's agreement with Chad.

One of the consortium's original partners, Chevron Corp., said in 2014 that it sold its 25 per cent stake for $1.3 billion.That was just weeks before the price of crude began a deep and long slump, falling from over $100 a barrel to under $30 at one point this year before recently rallying to around $50 a barrel. Chad is a relative newcomer to the oil industry, becoming a producer in 2003. The U.S. Energy Information Administration estimates the country's output at 120,000 barrels a day, or about 44 million barrels in 2015.

The landlocked country, which remains one of the world's poorest, exports its oil via a pipeline through Cameroon.

## SHELL HALTS PROPOSED OIL-BY-RAIL PROJECT AT ITS REFINERY

Shell Puget Sound Refinery announced Thursday it has terminated plans for a proposed oil-by-rail project at its refinery in Washington state.Under the plan, trains would have brought crude oil from the Bakken fields of North Dakota to replace some of the supply Shell currently gets from Alaska's North Slope.Refinery general manager Shirley Yap told the Skagit Valley Herald (https://goo.gl/iLxiMW) Thursday that recent low oil prices and abundant production elsewhere have slowed Midwest production, making it less of a good investment."At today's prices even if I had a (rail) facility, I would not be buying Bakken," Yap said.The proposal had been in the works for years with Skagit County officials concluding that there weren't significant impacts from the project in Anacortes. But conservation groups appealed and a county hearing examiner ruled a full project review was needed.Shell's appeal of that decision was dismissed last year and a draft environmental impact statement regarding the project was released earlier this week by state and local officials.The environmental statement being released was a good milestone at which to make the refinery's announcement, Yap said. She was confident, she said, the facility could have been built following the environmental statement's guidelines.But the announcement was news to Skagit County Planning Director Dale Pernula."They've been working so hard, and we've been working so diligently on this. It just really surprised us," he said.Kristen Boyles, an attorney at Earthjustice who represented conservation groups in their legal challenge of the project, called the decision to stop the project an extraordinary victory for the people of Skagit County and Washington state."Having a full and transparent public process exposed everyone – including apparently Shell itself – to the risks and harms of this project," Boyles said in an email.The refinery will continue receiving crude from Alaska by ship and from Canada by pipeline and will also examine other potential sources."There will be other opportunities for us to invest in," refinery spokesman Cory Ertel told the newspaper. "This just isn't a good investment at this time anymore."