Taking the Reins: The Case for Slowing Alberta’s Bitumen Production

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Executive summary

Near-continuous budget crises belie the fact that Albertans are fantastically wealthy. The reason is our collective ownership over the resources buried beneath the province, with the key resource these days being bitumen. How, when, and if this critical resource is extracted and sold has massive financial, social, and environmental implications for Alberta and beyond.

However, control over these decisions has effectively been ceded by the provincial government. It is left to the mostly foreign-owned oil corporations to decide how development of the tar sands occurs. The predictable frenzy that has ensued to remove and export bitumen as fast as possible is spurred by massive government subsidies in the form of rock-bottom royalties, as well as other factors. Albertans would be right to question whether spending billions on inducing another tar sands boom is a prudent development strategy.

In the wake of the 2005-2008 bitumen rush, Albertans became all too familiar with the costs and upheaval caused by a tar sands boom: extraordinarily high inflation that eroded purchasing power and impeded necessary public investments, long working hours and little vacation time, over-stressed public infrastructure and services, rampant homelessness, widespread staff shortages, a declining manufacturing sector, and a compromised education system. Rapid tar sands development becomes even less appealing when the environmental repercussions are considered. These include rising CO2 emissions that compromise serious action on climate change, indications of alarming levels of local air and water pollution, massive water consumption that is set to increase amid concerns of future water shortages, toxic “tailings ponds” that may be irremediable, and severely degraded ecosystems that pose a significant financial liability to the province.

From a public interest perspective, the Alberta provincial government’s blinkered promotion of ramped up tar sands activity is unfortunate. The bitumen reserves in Northern Alberta are so rare, large, and risk-free that the government has the ability to dictate the terms − how, when, if − of development. Yet the public is repeatedly told that maintaining their quality of life is dependent on ensuring ever-more rapid growth in the tar sands, whatever the costs. As this report outlines, nothing could be farther from the truth. Indeed, as many experts and a majority of Albertans recognize, a high quality of life for all Albertans is best pursued by slowing down development of the tar sands. The report concludes by identifying several mechanisms that can be used to achieve a slowdown.
1. Introduction

The recently finalized sale of Nexen Inc. to China National Offshore Oil Corporation (CNOOC) provides insight into how corporate interests drive public policy regarding Alberta’s fossil fuel resources. The two clear winners of the deal are the owners of CNOOC and Nexen. CNOOC will get a much-needed boost to its oil reserves with the acquisition of Nexen’s 2.3 billion barrels of proven plus probable reserves, nearly three-quarters of which are in the tar sands. The sale of Nexen’s assets, which are 70% owned by non-Canadians, has meant a major payday for its owners. They took home $15.1 billion for assets that were valued at just $9.2 billion at the time of the offer.

While the corporate interests involved were appeased, the interests of the public are a different matter. An overwhelming majority of Albertans and Canadians opposed the sale of Nexen. This is remarkable, given that Albertans are repeatedly told that ensuring evermore investment in the tar sands is crucial to their future prosperity. In the public debate over the Nexen takeover, despite clear evidence to the contrary, the consensus view portrayed in mainstream media was that development of the tar sands requires foreign capital and therefore further encroachment by foreign-owned corporations. For this investment and development to materialize, Albertans are implored to accept an ever-longer list of sacrifices. To name just a few: disregarding environmental degradation, ramming through controversial pipelines, importing workers via the temporary foreign worker program without granting them the right to apply for citizenship, and tolerating low royalty rates. Yet in the Nexen case, most people appeared unwilling to accept this deal regardless of the supposed benefits. The chief reason: concern over a loss of control over Canada’s resources. Clearly, Canadians place high value on resource sovereignty, meaning the right to determine the if’s, hows, and when’s of resource development. Continuing to increase foreign-ownership in the tar sands is a move in the wrong direction.

However, even before the sale of Nexen closed, the provincial government had already severely circumscribed its sovereignty over the tar sands. While Albertans might still hold legal ownership over the bitumen, control over when and how development of the bitumen occurs has effectively been ceded to the oil corporations. Unsurprisingly, the lure of large profits and secure oil reserves has led to a rampant pace of production as oil corporations from around the world have sought to claim their own stake. These decisions have enormous impact on the wellbeing of Albertans and the value they receive for their resources. In the absence of effective government management, Albertans and Canadians have suffered the deleterious consequences of dramatic fluctuations between boom and bust.
Resource sovereignty is only useful if it is exerted. For both economic and environmental reasons, Albertans would be well-advised to avoid another tar sands boom. The Alberta government has the responsibility to manage the province’s common property in the public interest. Doing so would entail an about-face from the current “give it away” approach that promotes rapid development at the expense of significant royalty revenue and a prudent environmental strategy.

2. Boom, Not Bubble

Given recent proclamations from the provincial government about revenue shortfalls due to a sudden and unexpected “bitumen bubble,” it seems counter-intuitive to claim that the tar sands are booming. But recent reports suggest that the government’s remarks are little more than crisis-inducing scare tactics. In reality, recent production and investment have reached unprecedented heights.

The province’s financial reports show that the impact on Alberta’s revenues of a lower-than-anticipated price for bitumen is far less significant than the government has suggested. Premier Alison Redford took to the airwaves in January to declare that the “bitumen bubble,” the price differential between West Texas Intermediate (WTI) and Western Canada Select (WCS), would cost Albertans $6 billion in lost revenue this fiscal year. But the government’s 2013 budget shows that the lower-than-expected bitumen royalty revenue accounted for only 53% of the overall decline in resource revenue.\(^5\)

The current “bitumen bubble” is also neither new nor particularly large. The price differential averaged $32.72 in January 2013.\(^6\) The differential has reached that level or higher three times since 2005, including a spike to $41.72 in December 2007.\(^7\) Notably, on a percentage basis, the differential in December 2012 was lower than the average for all of 2005.\(^8\) Over the past several years, the differential has proven quite erratic, with many major expansions followed quickly by contractions. Amid these peaks and troughs, the long-term pattern has seen the WTI and WCS track closer together.

In keeping with historical patterns, the current price differential is forecasted to decrease in the near term. Financial analysts from RBC expect the price of bitumen to increase by mid-2014, even without approval of the Keystone XL pipeline. Other industry analysts predict the price differential will shrink dramatically by the end of 2013.\(^9\) On its own, the “bitumen bubble” is expected to do little to slow investment in future tar sands production.

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5 Authors’ calculation based on figures in the Alberta Government’s Budget 2013.
In fact, the tar sand industry appears to be picking up where it left off before the Great Recession of 2008. Despite continued global economic uncertainty and fears of a double or triple-dip recession, production and investment levels in the tar sands have reached unprecedented heights, surpassing even the levels witnessed at the height of the pre-recession boom (Figure 1).

A quick review of the tar sands numbers makes this clear. Production is now 30% higher than the boom-time peak reached in 2008. In 2011, production reached 1.6 million barrels per day of synthetic crude and bitumen, with sales of approximately $50 billion. Capital investments, at $22.7 billion in 2011, are 25% higher than in 2008. Total expenditures have grown by nearly 40% over the same time period.

The trend is expected to continue. The Canadian Association of Petroleum Producers expects that 2012 will have set a new record for capital investment in the tar sands. Additionally, Suncor, Canadian Natural Resources, and Canadian Oil Sands all recently announced their plans to increase capital expenditures in 2013. The Energy Resources Conservation Board forecasts capital investments reaching $24.7 billion by 2015. As early as July of last year, the Canadian Energy Research Institute forecasted total investment to increase to nearly $50 billion by 2018.

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**Figure 1. Another Tar Sands Boom?**

![Bar chart showing production, capital investment, and total expenditures from 2000 to 2011.](Source: CAPP Statistical Handbook. January 2013)
This incredible acceleration of production is put in perspective by reference to earlier expectations. In the mid-1990s, when representatives of government and the oil industry were advocating for massive new development in Alberta’s tar sands, it was projected that the area might produce between 800,000 and 1.2 million barrels per day by 2020.\textsuperscript{16} That level of production was reached more than a decade ahead of schedule. It is now anticipated that production will exceed 3.7 million barrels per day by 2021\textsuperscript{17} – more than three times the high end of earlier projections – and the government has approved projects totaling over 5.2 million barrels per day in bitumen production.\textsuperscript{18} Alberta’s current rate of exploitation puts the province well into uncharted territory.

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3. Unequal Distribution of Boom-time Costs and Benefits

Alberta’s oil booms have certainly generated jobs in the construction-related sector. But these jobs are inherently insecure and temporary – poor justification for the boom-time mystique that holds that everyone benefits. A majority of Albertans will remember the features of an overheated economy that plagued the province during the last boom, such as:

- made-in-Alberta inflation that contributed to an extraordinarily high cost of living and eroded the purchasing power of people living on fixed-incomes, including seniors and those dependent on minimum wage jobs or social assistance;

- high population growth that increased pressure on critical public infrastructure such as schools and hospitals;

- a homelessness crisis due to soaring housing costs and population pressures;

- currency inflation that eroded the export-driven manufacturing sector;

- scarcities of materials and labour that significantly hampered governments’ ability to maintain and improve public infrastructure in a cost-effective manner;

- staff shortages in a range of sectors (including daycares and social services) due to the availability of better-paying jobs in tar sands areas;

- compromised education and job training programmes due to the pressure to move potential workers through the system, with consequences such as a high school completion rate that is near the bottom compared to the other provinces.19

- an exceptionally dangerous economy for workers, as the boom pushed workplace fatalities in Alberta per 100,000 workers far above the average in the rest of the country.20

For low and middle income Albertans, the last boom meant a quality of life that only held steady – or even deteriorated. Research shows that the vast majority of income gains during the early part of the boom went to the top-income bracket, while the small income gains for the rest of Albertans were largely due to increased working hours.21 Even amidst boom-time hype, Albertans recognized this reality: a public opinion poll conducted during the peak of the boom found that the majority of Albertans did not feel they were personally better off because of the boom.22
There were substantial benefits to the boom, but these were primarily concentrated amongst a select few. Those who benefited most from Alberta’s booming oil and gas sector throughout much of the last decade were the oil companies. For years, major players such as Imperial, Shell, Husky, Suncor, Encana, and Canadian Natural Resources regularly posted unprecedented profits. As a whole, the industry reported record-breaking operating profits in 2008 of $38 billion, an incredible 165% increase from 2002, the beginning of the boom.23

Senior executives in the oil and gas industry are exceptionally well compensated. Indeed, the average income of the top 1% is far higher in Alberta than it is in any other province or territory, due largely to inflated CEO salaries.24 Outside of Shaw Communications, the top five incomes in Alberta in 2011 were all CEOs of major oil and gas corporations and averaged $10,675,824 annually.25

Many boom-time beneficiaries are non-Canadians. Over two-fifths (41.3%) of the oil and gas industry’s profits flow out of Canada. The situation is even more pronounced in the tar sands, the center of recent investment, where 71% of production is owned by non-Canadian shareholders.26

23 Statistics Canada, CANSIM Table 180-0003, Financial and taxation statistics for enterprises, by North American Industry Classification System (NAICS) – REVISED.
4. Boom Fueled by Corporate Welfare

The tar sands industry was initiated largely through extensive government support intended to kick-start private investment in a new type of oil production at a time of low oil prices. Yet despite record-breaking investment levels, oil prices over $75 per barrel, and the well-documented technical feasibility of bitumen extraction, the Alberta government has failed to adjust its policies. The government’s royalty structure continues to promote more private investment regardless of clear signals that another tar sands boom is undesirable.

The basic structure of Alberta’s royalty regime has not evolved since 1997. While the province’s royalty framework for the tar sands was slightly modified to be more price sensitive as of January 2009, the same basic framework remains in place. The government provides an initial royalty holiday, charging only a nominal 1%-9% of gross revenue, until bitumen sales have enabled investors to recover a long list of costs. The objective of this regime is to entice private investment, as the royalty holiday allows corporations to begin earning project-specific profits much earlier than they would otherwise.

Royalty holidays have come at a significant cost to government revenue. Economists use the term ‘rent’ to describe profits in excess of a reasonable rate of return, generally assumed to be 10% of investment. According to industry figures, since 1997 the provincial government has never captured more than 20% of tar sands rent and has averaged only 9% over that time.27 Oddly, the provincial government nevertheless maintains that “Alberta’s royalty system is designed to collect all of the economic rent.”28 The difference between the government’s rhetoric and the real figures is tens of billions of dollars. In 2010, the government subsidized the tar sand industry to the tune of $30 billion by failing to collect the full rent.29 Not only is the Alberta government’s royalty holiday outdated and expensive, it is fuelling another boom.

28 Email correspondence to Hugh MacDonald, as Chair of the Standing Committee on Public Accounts, from Peter Watson, Deputy Minister, re: answers to the Supplementary Public Accounts questions of March 10, 2010.
5. High Dollar, Big Problem

Oil booms have consequences that reach across the entire country. Recent debate about the nation-wide impact of a booming tar sands industry has revolved around “Dutch Disease,” an economic term describing a tendency for resource booms to be coupled with deindustrialization. A campaign by industry-funded think tanks and conservative politicians to build national support for the rapid growth of the tar sands has led to strong reluctance to acknowledge Dutch Disease symptoms. However, evidence of the existence of Dutch Disease in Canada is overwhelming.

Bank of Canada Governor Mark Carney has declared that the dollar’s appreciation has been the most significant factor affecting the competitiveness of Canadian exports, accounting for two-thirds of the loss of competitiveness. Carney’s assessment of the high dollar’s deleterious effects on Canadian manufacturing were echoed in an analysis of the Canadian economy by the Organisation for Economic Co-operation and Development (OECD), an international economic analysis agency that is not beholden to fossil fuel interests. While acknowledging the role of broad economic factors, the report found that an overvalued Canadian currency, which is driven in large measure by “sharp increases in commodity prices, especially for energy,” has contributed to Canada’s export-oriented manufacturing sector having “shrunk sharply” over the past decade.

An illustration of the strong correlation between the Canada-US exchange rate and the health of the manufacturing sector can be seen in Figure 2. As the exchange rate (US$) increased during the 1990s, manufacturing jobs also rose, and when the exchange rate began to plummet in the early 2000s during the tar sands boom, manufacturing jobs in Canada fell in tow.


Calculations and graph done by Paul Tulloch using data from Statistics Canada. 

The decline of the manufacturing sector in Alberta is striking. In terms of jobs, manufacturing is an important sector in the province, accounting for a similar share of provincial employment as oil and gas extraction. At the outset of the boom in 2002, manufacturing accounted for 9% of Alberta’s employment. Six years later, at the end of the boom, manufacturing was reduced to only 7.1% (Figure 3). This amounts to the disappearance of 3,400 well-paid, full-time jobs. Since then, the decline of Alberta’s manufacturing sector has continued. By 2011, manufacturing had eroded to 6.8% of provincial employment, and the government expects even further reductions to 6.2% by 2015. Even allowing for the significance of factors such as global shifts in manufacturing patterns, the decline is troubling. The short-term, insecure employment opportunities associated with resource booms are poor compensation for the loss of stable, well-paying manufacturing jobs.

34 Statistics Canada, CANSIM Table 282-0088: Labour force survey estimates (LFS), employment by North American Industry Classification System (NAICS).
6. Environmental Risks

Scott Vaughan, Federal Commissioner of the Environment and Sustainable Development, recently stated in a report to parliament he is “concerned that environmental protection is failing to keep pace with economic development.”\(^{36}\) Nowhere does this concern seem more justified than in the tar sands.

Research suggests that tar sands exploitation entails more serious environmental consequences than government and industry have publicly acknowledged. University of Alberta environmental scientists Erin Kelly and David Schindler found that airborne pollutants from tar sands operations were contaminating the Athabasca River and other water bodies within a 50 km radius. This called into question contrary claims by the Regional Aquatics Monitoring Program (RAMP), an industry-funded environmental monitoring program. Environment Canada’s follow-up research corroborated Kelly and Schindler’s findings while uncovering evidence that in fact the zone of likely contamination was quadruple that detected by Schindler and Kelly, stretching to 100 km from tar sands operations. Further, contamination was found to have increased dramatically in recent decades, a period in which tar sands development has intensified.

Pollutants found include petroleum-based varieties of polycyclic aromatic hydrocarbons, which Environment Canada lists as toxic, as well as a neurotoxin called methyl mercury that bioaccumulates through the food chain. There have also been studies showing elevated rates of cancer in First Nations communities close to tar sands projects.

The Canadian Environmental Assessment Act requires an assessment to consider a project’s cumulative environmental impact. But after more than a hundred project approvals and decades of development, there remains a significant lack of understanding of the tar sand industry’s cumulative environmental impact. The Federal Commissioner of the Environment and Sustainable Development flagged this information gap in 2011, noting that Federal authorities had repeatedly identified the missing data for over a decade. While industry activity has continued to expand, the lack of understanding remains. The first detailed analysis of the tar sands’ cumulative impact, produced by Shell Canada as part of its proposal to expand its Jackpine mine, found major environmental repercussions from anticipated industry growth. As summarized in the media in mid-September 2012, the study found that allowing all announced projects to proceed would “threaten to wipe out caribou, acidify nearly two dozen lakes and produce some air emissions higher than regional standards enacted by the government of Alberta on Sept. 1 [2012].”

Officials claim that implementation of a newly announced federal-provincial monitoring system will eventually lead to improved understanding of cumulative environmental effects. This new monitoring system was designed to replace the previous system operating in the tar sands, which received scathing reviews from both the federal and provincial committees tasked with evaluating it. However, the new monitoring system has been sharply criticized on the grounds that it lacks independence and that it will take three years to be fully implemented. Actively promoting another tar sands boom without fully understanding the ecological implications is not a prudent environmental strategy.

The climate implications of a rapidly growing tar sands industry also give reason for pause. From 1990 to 2010, CO2 emissions from the tar sands nearly tripled. Assuming forecasted production increases, Environment Canada anticipates that CO2 emissions will double between 2010 and 2020, meaning emissions will have increased more than five times from 1990 levels. The rapid increase in production being forecast makes it extremely unlikely that Alberta or Canada will be able to meet their greenhouse gas [GHG] reduction targets. The difficulty in squaring rapid production increases with GHG reductions might explain the Federal government’s long delays in announcing regulations to limit GHG emissions in the tar sands and was certainly central to the decision to exit the Kyoto Protocol.

While representatives of the provincial government and industry are quick to give the impression that progress is being made, statements to this end are generally in reference to the misleading metric of emissions per barrel. Even fantastic improvements in the CO2 “intensity” of production can be wiped out if overall production is allowed to rapidly increase. The Pembina Institute calculates that continuing to expand tar sands production at the rate forecasted will mean that to halt the growth of tar sands emissions, CO2 intensity will have to be reduced 72% by 2030 - a Herculean task.\(^{43}\)

Notably, even in relation to this industry-friendly metric, improvements have slow to materialize. According to figures from the Canadian Association of Petroleum Producers, the tar sands industry has failed to make more than negligible improvements in CO2 intensity over the last several years. Indeed, at the peak of the boom in 2008, intensity levels increased 11%, and in 2011 they were roughly equal to 2005 levels.\(^{44}\) This increase in emissions comes despite years of research and various initiatives by oil corporations, provincial and federal governments, and various public institutions seeking to reduce the industry’s GHG emissions.

There are additional environmental repercussions of continuing to ramp up tar sands production. In-situ extraction methods are water-intensive, and the industry’s consumption of fresh water has continued to increase amidst heightened concern over future water shortages.\(^{45}\) The feasibility of reclaiming mined areas and tailings ponds, essential to the mitigation of the tar sands’ long-term environmental impacts and legally required of tar sands operators, is in doubt. According to the provincial government, reclamation has occurred on only 0.15% of the applicable area. A recently-revealed secret report prepared last year for the federal government casts further doubt on the possibility of cleaning up the toxic pits, concluding that “it is far from clear that the tailings ponds can be adequately restored.”\(^{46}\)

The Pembina Institute has documented the significant financial liability reclamation currently poses to the public.\(^{47}\)
7. Advantages of Slowing Development

Slowing the pace of tar sands development would bring substantial economic, social, and environmental benefits for Albertans. The advantages of slowing investment and production include:

• conserving critical water and natural gas resources, which are intensively consumed by the tar sands industry;

• improving the likelihood that Alberta and Canada will meet or exceed public commitments on GHG reductions, especially if these commitments are bolstered by ambitious regulations and strict enforcement;

• protecting Albertans from the erosion of their standard of living by helping to avoid runaway inflation rates;

• reducing the cost of necessary major public infrastructure investments by moderating tar sands-driven demand for labour and materials;

• boosting the competitiveness of Alberta’s and Canada’s value-added manufacturing exports, as constraining the flood of investment would help depreciate the overvalued dollar;

• establishing economic conditions conducive to the diversification of the provincial economy;

• facilitating an increase in the public’s share of resource revenue and a reduction in corporate welfare in the oil industry.

Notably, a slowdown in tar sands development need not entail lost employment. Avoiding another tar sands boom can and should be coupled with a jobs strategy focused on diversifying the provincial economy, encouraging green jobs, and promoting value-added manufacturing. In terms of employment, not all investments are equal. The oil and gas sector creates relatively few jobs for every dollar invested. Public dollars are best spent in alternative sectors that are more job-intensive and that can dampen the economic impact of a fluctuating oil price. For instance, the provincial government’s statistics reveal that investments in healthcare and education provide similar GDP stimulus as those in the oil and gas sector, with the additional advantage of from five to seven times the jobs.48
### Table 1. Tar Sands Development: Continued Rapid Versus Slowing Down

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### 8. The Empty Threat of Capital Flight

Industry representatives as well as industry-friendly media pundits and politicians propagate the misconception that any retrenchment of public subsidies to tar sands producers would prompt a great flight of capital out of Alberta. This argument falters on the global significance of Alberta’s bitumen reserves.

A prominent industry magazine characterized the current times as “an era when elephant oil and gas fields are harder to find and companies are struggling to replace reserves.” Privately-owned oil corporations are especially hard pressed to replenish their oil reserves considering the vast majority of reserves are under the control of national oil companies (NOCs). According to the Oil and Gas Journal, only 16% of the world’s oil reserves are available for non-NOCs. The future would appear to be even bleaker for private oil corporations, as the NOCs’ grip on the global oil and gas resource base is even stronger when the scope is widened to include estimated (i.e. yet to be proven) reserves. At over 169 billion barrels, the tar sands represent 64% of all proven oil reserves fully open to private ownership. Desperate to continually replace the reserves they annually burn through, major private oil corporations can ill-afford to give up their stakes in the tar sands.

On top of the tar sands’ dominant position in terms of international oil reserves open to private ownership, there are additional characteristics in which the tar sands compare very favorably to alternative reserves. For one, average oil projects in the tar sands are far larger than those available anywhere else in the world. While the average size of the 214 oil fields discovered between 2000 and 2008 was 28 million barrels, a typical

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50 For instance, Royal Dutch Shell recently reported that it did not expect to replenish the reserves it will sell off over the next three years, and only replaced 44% of the reserves it sold in 2012. Andrew Callus, “Reserves challenge clouds Shell’s growth ambitions,” Financial Post, 31 January 2013.

51 Laura Bell, “Major Players,” Oil and Gas Journal, 3 September 2012, p.22.


Steam-Assisted Gravity Drainage (SAGD) project has recoverable reserves of 600 million barrels, while a typical mining project has 2,200 million barrels. Another exceptional feature of the tar sands is that the location of the resource has already been mapped. Companies are able to save millions on costly and risky exploratory efforts. This is a major advantage to the tar sands over other potential sources of large reserves such as in the Arctic or deep offshore. Thirdly, Canada’s political stability means that the tar sands have a very low level of geopolitical risk. A Goldman Sachs analysis of the oil and gas industry places Canada second from the top in terms of the politically safest oil-producing jurisdictions. Overall, a recent report from Ernst & Young found that in terms of profits, size, and risk, the tar sands compare exceptionally well to the other handful of major oil opportunities in the world. As financial analysts rightly recognize, Albertans possess in the tar sands what the oil industry is desperate to secure: large, proven, low-risk reserves. This means Alberta is in a position to dictate the terms under which development takes place.

The situation has not been changed by a recent surge of domestic production in the United States. Recent analysis by energy expert David Hughes makes clear that claims of US energy independence based on new production technologies such as hydraulic fracturing (fracking) are little more than the overly optimistic assessments of vested interests. The increase in production the United States is likely to experience is wholly temporary. As one industry analyst recently concluded, “Long term, oil sands offer great value because of the scale they offer compared to tight oil.” Further, Hughes makes clear that even if overly optimistic assessments of US production could be realized, the environmental consequences would be catastrophic. Alberta remains in a position to dictate the terms of tar sands production, and it should begin by slowing development.
Many economic and environmental experts have argued publicly that Alberta should seek to avoid another tar sands boom. A central part of the Premier’s Council for Economic Strategy 2011 final report was how Alberta’s boom and bust cycle stunts needed economic diversification.61 Echoing these sentiments, Paul Boothe, former Deputy Minister at Environment Canada and the current director of the Lawrence National Centre for Policy and Management at the University of Western Ontario’s Ivey Business School, has publicly called for Canadians to “pass on the roller-coaster ride” of another resource boom and to support a “balanced approach to economic growth” that does not rely too heavily on a single sector.62 Economist Andrew Leach has highlighted the corroding effect of the cost inflation that accompanies a boom, countering the government’s focus on “competitiveness” by arguing that “as long as there are no meaningful limits on development, we’ll never be competitive for long.”63 Lee Foote, an environmental scientist at the University of Alberta, argues that the Alberta government should establish limits on tar sands development in order to safeguard wetlands crucial to the province’s efforts to ensure water security and control GHG emissions.64

Former Alberta premier Peter Lougheed was outspoken in his final years about his views on the tar sands. He implored the Alberta government to “think like an owner” and demand a fair return for the province’s resources.65 During the height of the last boom, Lougheed chastised the provincial government for allowing too much tar sands development and creating an “overheated economy” where “the major, major loser is the people of Alberta.”66 During the subsequent bust, he argued the provincial government should take advantage of the slowdown and regulate “orderly development” in the future.67

Along with scientists, economists, and elder statesmen, a majority of Albertans oppose rampant tar sands production. A poll taken at the height of the last boom found that 67% of Albertans disagreed that the tar sands should be developed as fast as possible, 71% agreed with a moratorium on new approvals until environmental and infrastructure issues were resolved, and 74% agreed that the government, rather than market forces, should decide the rate of tar sands development.68

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64 Lee Foote, “Threshold considerations and wetland reclamation in Alberta’s mineable oil sands,” Ecology and Society 17(1), 2012, p.35.
10. Mechanisms to Slow Development

There are at least four main mechanisms by which the government could slow down and manage the pace of bitumen extraction.69

1. Direct Project Selection

The provincial government would select the projects that are allowed to proceed to construction based on specified criteria regarding employment, environmental performance, value-added linkages and royalty payments. As the most direct mechanism for slowing the pace of development, this approach would require difficult and controversial decisions. Transparency in government decision making would be essential.

2. Limit Construction Permits

Construction permits would be available in limited numbers through an open bidding process. All corporations would be invited to submit bids, which would be judged according to a set of specified criteria including employment, environmental performance, value-added linkages, and royalty rates. For every criterion, a floor would be established, ensuring at least minimum requirements would be met. The provincial government would have the ability to tie permit numbers to local labour market constraints, potentially making redundant the tar sands industry practice of hiring temporary foreign workers. This approach to pacing development has the benefit of ensuring only the highest-calibre projects proceed at a predictable pace while allowing corporations to compete openly on equal terms.

3. Get the Prices Right

The provincial government currently induces rapid bitumen extraction by transferring many costs and risks from private industry onto the public. Reversing these practices by ensuring oil companies bear the true costs of production would slow down development by eliminating what are currently financially marginal projects. This approach would involve internalizing costs related to the environmental effects of tar sands exploitation, such as those relating to climate change, air and water pollution, and reclamation. It would also entail ensuring that industry pays for the infrastructure mandated by its projects, such as roads used to access a particular project site. The drawback of this option is its reliance on market mechanisms, which may make its impact on the pace of development less predictable.

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69 This section borrows heavily from Diana Gibson, Parkland Institute, Taming the Tempest: An Alternative Development Strategy for Alberta, May 2007.
4. Public Interest Ownership

Canada’s oil and gas industry is dominated by private, for-profit corporations that are guided by a fiduciary duty to maximize shareholder value. The pursuit of shareholder value – profits, effectively – means increasing sales, consumption, and exports. In the tar sands, it means spurring rapid development. Alternatively, the oil and gas industry could be harnessed to a public-interest mandate that could include slowing tar sands production. Such an approach would provide a host of other benefits, such as capturing the full economic rent and boosting value-added development. It could also include compulsory investments in renewable energy. Public interest ownership can be accomplished through acquisitions of the private oil corporations at fair market value.
11. Conclusion

The policies of the provincial government are sending Alberta on a path toward another tar sands boom. Already there are indications in the current post-crisis ramp-up of tar sands activity that Alberta is on track to repeat past mistakes. For instance, population growth is once again booming.\(^{70}\) The lack of affordable housing is preventing women and children from escaping domestic violence.\(^{71}\) Further, government and industry representatives are expressing concern about a return of significant cost inflation.\(^{72}\) A secret government memo warned the federal government about the serious risk cost inflation poses to the tar sands.\(^{73}\) And a 2011 report by Ernst & Young identified cost inflation as the number one risk to future tar sands projects.\(^{74}\) For Albertans, cost inflation is a threat to the public interest in part because it also shrinks royalty payments.

There are many solid economic and environmental reasons why it would be unwise to embrace another boom. Returning to the overheated economy that plagued Alberta during the last boom carries significant risks for many Albertans and would primarily serve to benefit a largely non-Canadian oil elite. High inflation, a hollowed out manufacturing sector, intensified ecological degradation, and billions in foregone royalties are only some of the likely impacts awaiting Albertans if another tar sands boom takes place. Many experts have voiced opposition to the provincial government’s approach to tar sands development, and a majority of the public favours avoiding another boom.

The Alberta government has the responsibility to manage the province’s common property in the public interest. There are numerous policy mechanisms that could be employed to regulate development in the tar sands. What is needed is the political will to exert sovereignty over Alberta’s oil and gas resources.


\(^{73}\) Mike De Souza, “Secret memo warns oilsands damage may be irreversible,” Calgary Herald, 21 February 2012.
