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Failing to Thrive

Report outlines the $50-million-a-day cost of not investing in infrastructure for the energy sector

By Heather Hudson

Is the Canadian economy missing out on billions of dollars of revenue every year?

According to a 2013 Canadian Chamber of Commerce report titled *$50 Million a Day*, a lack of infrastructure is keeping Canada from maximizing our potential benefits in energy markets.

"Right now, it costs us millions every day," reads the report. "In the future – as U.S. demand declines – it's going to really hurt."

The report lists six "cold hard facts about Canadian oil and gas." With the help of Katrina Marsh, director of the chamber's environmental and natural resource policy and co-author of the report, and Bill Ferreira, director of government relations and public affairs for the Canadian Construction Association, we're breaking them down.

1. Oil and gas power the Canadian economy

Western Canadians might get it, but it's easy for the rest of the country to dismiss the enormous impact the oil and gas sector has on the economy as a whole.

According to the report, oil and gas accounted for about seven per cent of Canada's gross domestic product (GDP) and 550,000 direct and indirect jobs in 2012. Further, it comprises a fifth of Canada's exports and generates significant royalties and taxes that contribute to government revenues.

2. Canada's only international energy market, the U.S., is on a path of declining imports

Historically, the U.S. has been the destination for virtually all of Canada's oil exports. But the U.S. has dramatically increased its production of oil and gas and is expected to be energy self-sufficient by 2035.

"It's in our best interest to establish Canada quickly as a supplier of choice to seize opportunities that currently exist and establish long-term partnerships with many of the economies that need energy," says Ferreira.

"There are significant shale gas deposits in China and bitumen in Russia and Venezuela, for example. If we aren't able to supply global demand, those countries will invest in developing their own technologies to meet domestic and export demands."

3. New opportunities lie in Asia, but Canada lacks the infrastructure to get there

Exporting to foreign markets like Asia is a non-starter when you consider that the pipeline, rail and liquefied natural gas processing infrastructure does not exist to get Canada's oil and gas products to market.

"We have only one oil pipeline – Kinder Morgan's Trans Mountain line – capable of bringing oil to the west coast. Our energy resources are essentially landlocked," reads the *$50 Million a Day* report.

4. Canada loses billions each year from its lack of energy transport infrastructure

It hurts to think of unrealized government royalties and revenues that could help all Canadians, particularly with a strong heavy construction industry in virtually every province. And every moment counts.

"Creating infrastructure for natural gas is very time sensitive. The liquefied natural gas markets tend to be settled in long-term contracts and there are many competitors for growing Asian markets, which means that if Canada doesn't move before other

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BILL FERREIRA

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countries do, we may lose out on a significant opportunity," says Marsh.

"We'll still be able to sell oil to Asia in 10 years' time, but [by failing to develop the infrastructure needed to access new markets], we're certainly not maximizing the value of our resource."

Indeed, pipeline bottlenecks caused by growing production of crude oil in the U.S. increasingly results in a heavy discount for Canadian oil products, even when differences in quality are taken into account. In early 2013, this discount costs Canadian oil producers as much as $50 million a day in lost revenues, which inspired the name of the Canadian Chamber of Commerce report. Although this discount fluctuates with oil prices, losses of this magnitude could become increasingly common if new transport infrastructure is not built to help Canadian producers access new markets.

5. Energy can be, and is, transported safely

There's no question that transporting energy can be a dangerous and environmentally dicey operation. But, by and large, Canada has regulations and best practices that make environmental disasters few and far between.

"The environmental issue is a regulatory one. Almost anyone who looks at it objectively would argue that the regime in Canada is far more stringent than elsewhere in the world," says Ferreira.

6. The world is not running out of oil. Today's energy companies must be the catalysts to move to a lower carbon energy future.

The development of natural resources, including oil and gas, does indeed have an impact on the air, water and earth. However, Marsh and her colleagues at the Canadian Chamber of Commerce point out that oil sands production accounted for only 0.16 per cent of global emissions in 2010, a small fraction of what was attributed to the emissions of the U.S. coal-fired generation sector, for example.

Ferreira concurs.

"Are there some concerns? Absolutely, but Canadians are placing demands on government to be sure resources are developed in the most environmentally friendly way possible. That's not the case in other parts of the world," he says. "If we're not investing [in infrastructure] because of fear, the gap will be filled by other countries and, in many cases, ones with less stringent regulations than here in Canada."

What role does the heavy construction industry play? Whether you agree with all of the nuances of the *$50 Million a Day* report or not, it's undeniable that the heavy construction industry has a vested interest in improving infrastructure in this country. And construction associations across Canada have been doing all the right things to address it, says Ferreira.

"Our membership has been very concerned about the declining level of investment in infrastructure. Much of the core infrastructure that supports our economy was built in the 1950s and '60s and is approaching the end of its useful service life," he explains.

"SHCA, for example, has been bringing attention to its provincial government in terms of export capacity. In the last budget, the federal government committed to $50 billion for a 10-year infrastructure plan. Now that the money is in place, we hope that the provinces will have the stability they need to develop their own capital plans over a similar period of time so they

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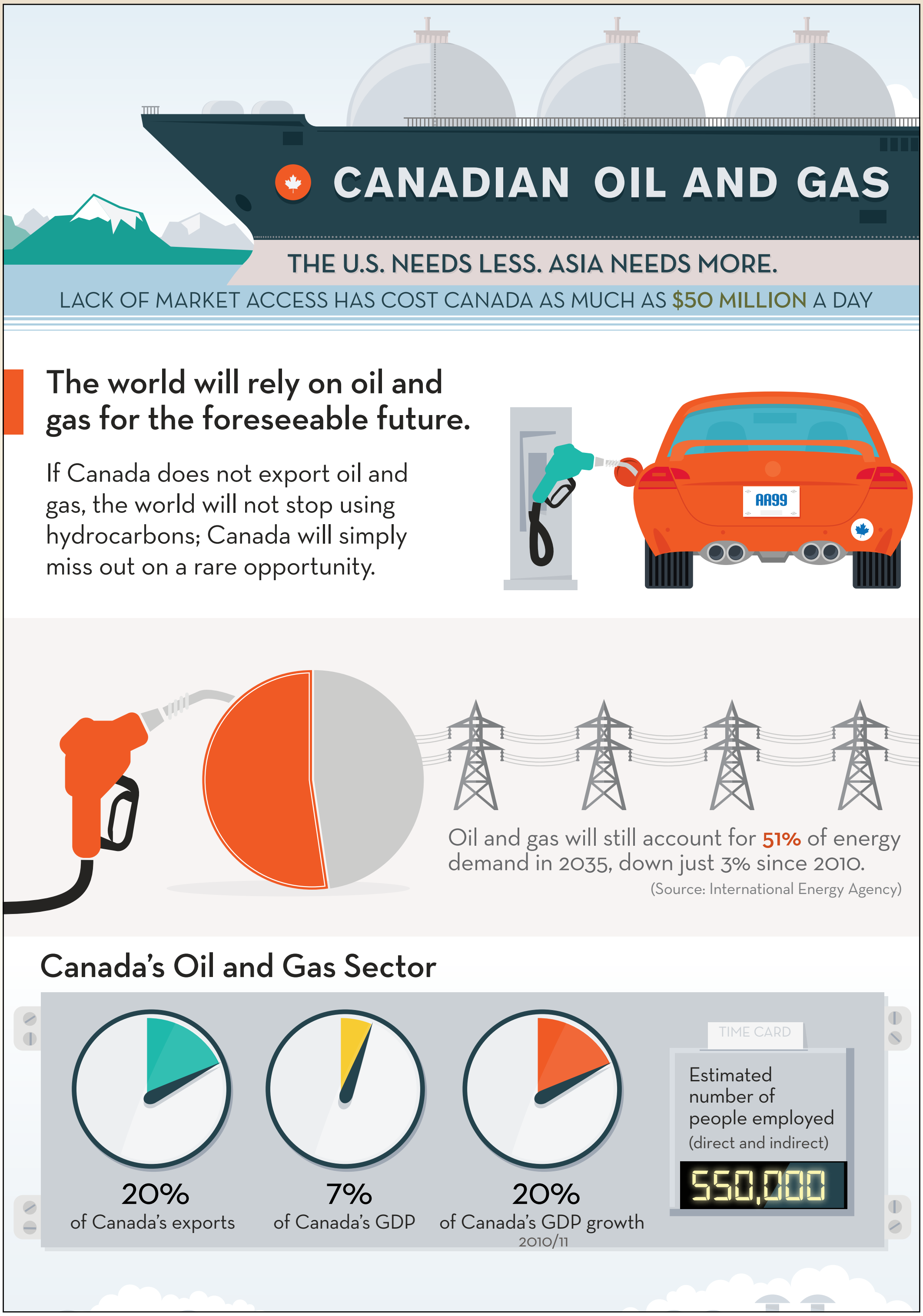

can give the industry some measure of assurance that money will be there for infrastructure, which then allows policy-makers to begin investing those resources where it makes the most sense."

In terms of preparing the public for some potentially big projects, Marsh points out that "social licence" is a powerful tool.

"Public consent and approval of a project has become another licence that firms need to get. It's not just about getting a government permit, it's about getting community buy-in," she notes.

In the oil sands sector, a number of companies started Canada's Oil Sands Innovation Alliance (COSIA), which shares environmentally-friendly intellectual property for the betterment of the industry as a whole. Initiatives like this will help reduce the sector's impact on the environment by making it easier to develop and apply environmental technologies.

"It's part of our national identity to love nature and want to protect our natural resources. But it's important that industry demonstrates that it's not about one or the other. Natural resource firms understand that that's how they gain social licence: by doing a better job stewarding Canada's environment," says Marsh.

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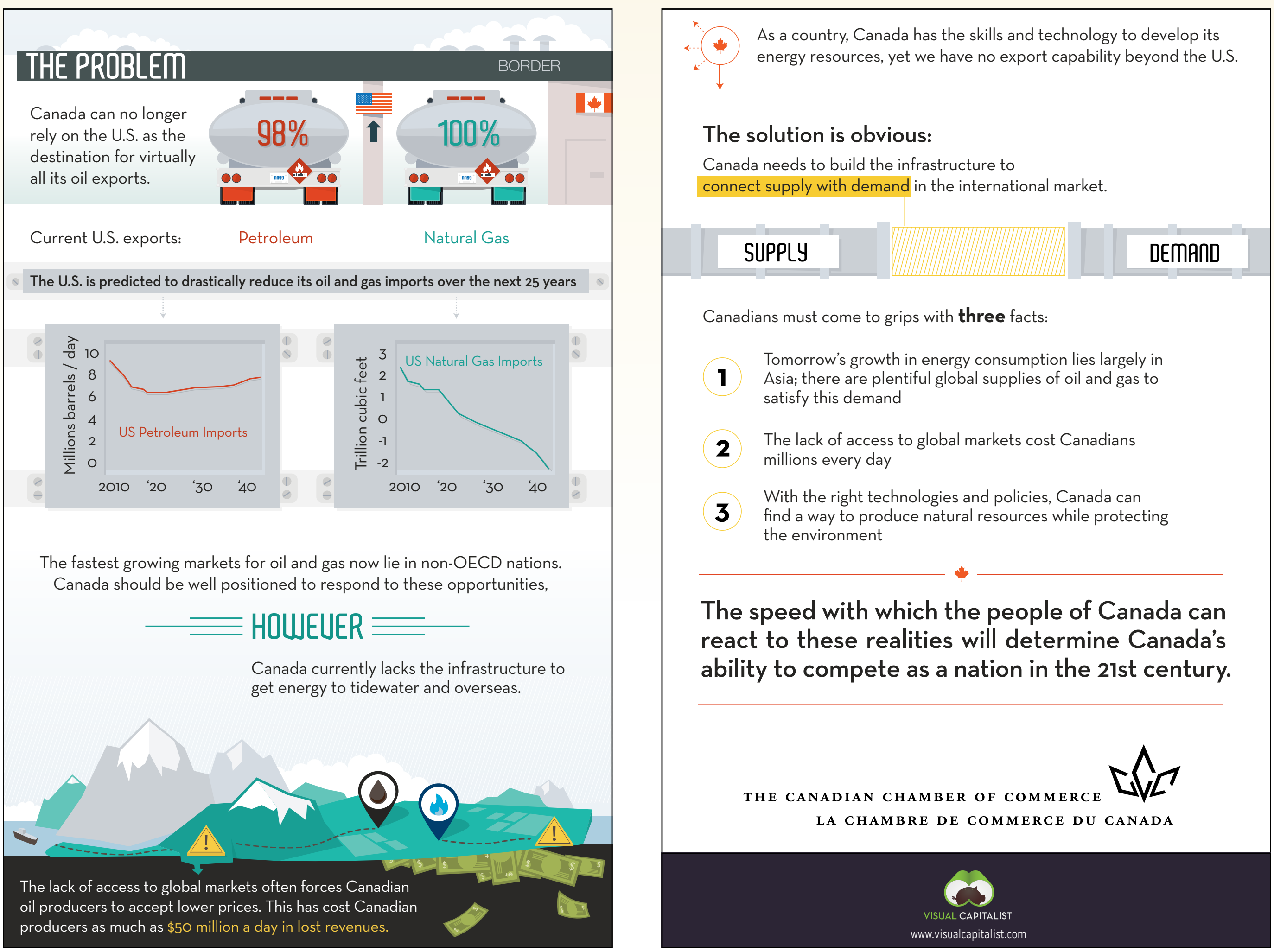

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