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FROM DEAD DUCKS TO DUTCH DISEASE

The Vilification of Canada's Oil Sands in the Media

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EXECUTIVE SUMMARY

Alberta's oil sands have become the focal point of an ongoing debate about the benefits and costs of resource development. To get a sense of how this debate has been unfolding, the Canada West Foundation examined the news stories that have dominated oil sands coverage in recent months from selected local, national, US and international sources. Our objective was to draw out the major themes of that coverage and to examine what some of the implications for the industry might be.

Out of our analysis, five broad themes emerge. These are:

1

Pipeline construction & market access

This has become the proxy issue for the entire oil sands development debate. Environmental groups aim to slow development by opposing the new pipelines needed to move bitumen out of the oil sands.

2

Regional tensions & regional cooperation in Canada

There is an emerging perception that all the economic benefits of resource development accrue to Alberta while the impact on the rest of the country is negligible, or even negative. This has heightened interprovincial tensions and undermined efforts to develop a national energy strategy.

3

Government policies toward oil sands development

The oil sands industry enjoys strong support from the federal and the provincial governments. However, that support has been criticized as being one-sided.

4

Foreign investment & control over the oil sands

Foreign ownership has long been a component of the oil sands discussion but is taking on new life as Chinese companies become more active. The CNOOC bid to acquire Nexen has raised a number of critical policy questions regarding the appropriate role of state-owned enterprises in the oil sands.

5

Social licence to operate & reputation management

Resistance to pipeline construction provides a taste of the challenges that the oil sands industry could face if it fails to attract broad public support. Maintaining that support requires continued efforts to reduce the environmental impact of production and to communicate key successes.

INTRODUCTION

In recent years, Alberta's oil sands have become the focal point of an ongoing debate about the benefits and costs of resource development. This debate has expanded and evolved over time, spanning a wide range of issues as competing economic, political, environmental, social, regional and national interests battle in the court of public opinion. At its core, however, the oil sands conversation has been a tug-of-war between those who see the resource as a great source of wealth and prosperity for Canada and those who feel that the environmental costs outweigh any such benefits.

This tug-of-war plays out in a range of forums including the popular media. Indeed, because media coverage both reflects, and contributes to, the oil sands debate, it plays an important role in shaping public perception and can influence future development prospects for the resource.

Analysis of this media coverage provides a valuable insight into where the conversation about the oil sands is going both within the country and around the world. For this reason, the Canada West Foundation has closely monitored the nature and evolution of the oil sands conversation over the past several years. In 2010, we released *Blackened Reputation: A Year of Coverage of Alberta's Oil Sands*, which examined how the oil sands were portrayed across a wide range of print media. Our analysis of oil sands coverage has continued through 2011 and 2012.

THE OIL SANDS CONVERSATION HAS BEEN A TUG-OF-WAR BETWEEN THOSE WHO SEE THE RESOURCE AS A GREAT SOURCE OF WEALTH AND PROSPERITY FOR CANADA AND THOSE WHO FEEL THAT THE ENVIRONMENTAL COSTS OUTWEIGH ANY SUCH BENEFITS.

This paper examines the current state of the oil sands conversation in the mainstream media. Unlike our previous work, however, the intent is not to comment upon shifts in the tone of the coverage. Rather, we provide a bird's-eye view of the major themes that have recently dominated news stories from selected local, national, US and international sources. Our objective was to analyze these articles and to draw out the major themes of the present oil sands conversation. By so doing, we identify areas where the discussion reflects a potential risk or benefit to the oil sands industry and what some of the implications of those risks might be.



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How did we get to where we are today?

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The overarching public narrative about the oil sands has changed dramatically over the years. What was once a story about the economic and technological challenges of extracting wealth from a vast, untapped resource in northeastern Alberta has evolved into a fiercely polarized debate about the economic and environmental tradeoffs associated with oil sands production and exports.

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On the one hand, oil sands advocates point to the benefits of production such as the generation of economic growth, the creation of high-paying jobs, contributions to government royalties and improving continental energy security. Their side of the oil sands story focuses on how best to maximize those benefits – accessing new markets, attracting foreign investment, improving the regulatory approval process and so on.

Conversely, environmental non-governmental organizations (ENGOs) and others see the oil sands as a symbol of rapacity and the environmental damage from extraction as an indictment of our dependence on fossil fuels. They have enjoyed considerable success in portraying the oil sands as a blight upon the earth, highlighting the growth in greenhouse gas emissions associated with oil sands production; water contamination and the high levels of water use in production; and the transformation of the region's boreal forests into a barren moonscape, dotted with duck-killing tailings ponds. Moreover, there are other critics who are sceptical about the positive economic impact of the oil sands. Some see the benefits as accruing only to Albertans, while stauncher critics see that prosperity coming at the expense of prosperity in other provinces.

How did this shift in the oil sands narrative take place? How did the oil sands become a lightning rod for inflamed rhetoric and polarized debate?

In *Blackened Reputation*, we noted that the environmental narrative surrounding the oil sands initially galvanized around the issue of tailings ponds. One of the first major news stories to capture the public's attention was an incident in 2008 involving the death of 1,600 ducks that landed on a Syncrude tailings pond. For a long period, stories about tailings ponds dominated media coverage of the oil sands, usually accompanied by incriminating photographs of dying waterfowl.

The story about ducks and tailings ponds thrust itself upon the public imagination quite suddenly, but simmering in the background was the issue of the impact of oil sands production on greenhouse gas (GHG) emissions. As bitumen production expanded, it became clearer that the oil sands represented a significant roadblock to Canada achieving its international commitments on GHG reduction.

ONE OF THE FIRST MAJOR NEWS STORIES TO CAPTURE THE PUBLIC'S ATTENTION WAS AN INCIDENT IN 2008 INVOLVING THE DEATH OF 1,600 DUCKS THAT LANDED ON A SYNCRUDE TAILINGS POND.

While emissions from energy consumption were flat or declining, the increase in oil sands activity was driving Canada's overall emission levels higher. Over the years, oil sands producers have achieved considerable success in reducing the intensity of their GHG emissions, but have been unable to effectively communicate this message because continually-expanding production keeps driving overall emission levels higher. Coupled with the fact that bitumen production is an energy-intensive activity to begin with, the oil sands became an obvious and attractive target for environmental groups.

Almost overnight, a lot of eyes were turned to a remote and hitherto largely ignored region in northern Alberta. In 2004, the US Department of Energy officially recognized Canada's oil sands reserves as the second largest in the world after Saudi Arabia's (Venezuela has since overtaken Canada in this regard). For those who believe that oil is a root cause of a looming climate crisis, the sudden appearance on the scene of an oil deposit second only to Saudi Arabia's was big news. Add in those ill-fated ducks, images of giant trucks scooping up earth from strip mines, a longstanding antipathy to Big Oil on the part of ENGOs, the ugly-sounding moniker "tar sands" and the suggestion that nuclear reactors might be a good way of providing the energy needed by oil sands producers, and voilà, the environmental community had its poster child.

Suddenly, Canada was the home of "dirty oil" and it did not matter that birds are killed by wind turbines or that the addition of hundreds of coal-fired electricity plants in China will dwarf oil sands emissions; the oil sands were environmental enemy number one.

Awareness of the impact of oil sands expansion on Canada's climate change commitments fell under heightened scrutiny at international events like the Copenhagen Climate Change Conference in 2009. As reported in the *Globe and Mail* in December 2009, Canada was branded the "dirty old man of the climate world" by *The Guardian* during that conference, in large part because of the effect that rapid oil sands expansion was having on Canadian CO₂ emissions.¹

FOR THOSE WHO BELIEVE THAT OIL IS A ROOT CAUSE OF A LOOMING CLIMATE CRISIS, THE SUDDEN APPEARANCE ON THE SCENE OF AN OIL DEPOSIT SECOND ONLY TO SAUDI ARABIA'S WAS BIG NEWS.

POSITIVE ECONOMIC STORIES GENERALLY TEND TO GET BETTER TRACTION AT THE LOCAL LEVEL WHERE THE BENEFITS ARE MOST PRONOUNCED.

Over time, the opposition to the oil sands has grown noticeably more vociferous and intransigent. Criticism also expanded beyond the confines of the deposits themselves. Recently revealed was the extent to which Canadian ENGOs and registered charities had been receiving money from well-endowed US foundations to aid their anti-oil sands lobbying efforts. Documents and media articles showed that these efforts concentrated on building public opposition to energy-related transportation infrastructure.² By magnifying the potential risks associated with transporting bitumen through pipelines and on tankers, the explicit hope was to choke off additional oil sands development.

In retrospect, these efforts have been highly successful in shaping media coverage of the oil sands over the past few years. Once a sleepy utility, the pipeline industry and its safety record has come under sharp scrutiny. That scrutiny was intensified by a high-profile oil spill in Michigan, which saw more than three million litres of diluted bitumen leak from an Enbridge pipeline into the Kalamazoo River in July 2010. Since that time, there have been a number of smaller spills from various pipelines in Canada and the US. However, where those spills might have been ignored or deemed inconsequential a few years ago, they are now front-page news.

The fact that environmental concerns have grown in prominence and largely shape the present-day oil sands narrative does not mean that the economic and security components of the discussion have disappeared. Positive economic stories generally tend to get better traction at the local level where the benefits are most pronounced. However, there has also emerged a growing recognition at the national level that the oil sands, and the billions of dollars of investment they attract, have become a major driver of economic activity – not just in Alberta, but for Canada as a whole. Even in the US, the economic and security benefits of increasing access to Canadian oil through the construction of the Keystone XL pipeline featured prominently in the US Republican nomination campaign in the summer of 2011.

OIL SANDS PROPONENTS HAVE NOT HAD THE SAME SUCCESS AS THEIR OPPONENTS AT CAPTURING THE PUBLIC IMAGINATION.

Nevertheless, oil sands proponents have not had the same success as their opponents at capturing the public imagination. For example, a compelling economic argument can be made for the importance of building a pipeline to Canada's west coast to access Asian markets. However, the benefits of market diversification, the dangers of being a captive supplier to the US, the costs to the economy of yawning crude oil price differentials that penalize western Canadian producers and other economic arguments have a more difficult time gaining traction with a broad audience compared to the potential disaster of a pipeline rupture in the Great Bear Rainforest or a tanker spill in Haida Gwaii.

All told, the oil sands conversation has evolved from a story of human ingenuity and overcoming technological challenge to a debate about the merits and drawbacks of further expansion in what is now a well-established industry. The specific issues or subjects may change, but ultimately all news stories, blogs, policy papers and other contributions to the public discussion on the oil sands fit within this broad framework. This in itself is unique. There are very few instances where there exists such strong opposition in some circles to an industry widely identified as a vital engine of economic growth. This alone makes the ongoing oil sands story worthy of interest.

The State of the Oil Sands Conversation in 2012

To get a sense of the key ideas and themes dominating the oil sands discussion, we examined recent news articles mentioning the oil sands in four different publications: *The Calgary Herald*, *The Globe and Mail*, *The New York Times* and *The Economist*. The intent was to provide a sample of the range of oil sands issues that are receiving media attention and the impact that geographical perspectives have on the content of that coverage.

It is of course true that all media coverage, regardless of source, is coloured by the biases of its writers and editorial boards. For this reason, a sample of four mainstream news sources cannot be expected to provide a representative snapshot of public sentiment on the oil sands; biases might affect the decision to emphasize certain types of news stories and would certainly affect the tone of coverage. However, our intent with this analysis is to focus on the issues and broader storylines themselves. Any reputable news organization could be accused of emphasizing a certain point of view, but would be very unlikely to ignore a significant story altogether.

In the United States, the oil sands conversation took place almost exclusively in the context of the proposed Keystone XL pipeline project. In mid-January, President Barack Obama formally rejected the pipeline. However, since the rejection was not based on the project's merits but on the adequacy of the review process, he invited TransCanada to reapply. Since that time, as per the President's request, TransCanada has been working on a revised route to Cushing, Oklahoma. It is now pursuing separately the southern portion of the pipeline, which would send oil from Cushing to Gulf Coast refineries.

Coverage of Keystone XL in *The New York Times* focused on three main arguments. The first was the potential economic benefit of the project; supporters argued that pipeline construction and operation would create much-needed jobs in a time of relatively high unemployment. Second, proponents suggested that the project would increase America's energy security by reducing dependence on Middle Eastern oil. Third, pipeline antagonists (including *The New York Times* editorial board) argued that the environmental costs were too significant to justify pipeline approval.

Those environmental costs had three components. First, there were concerns about the fact that the pipeline would increase greenhouse gas emissions, not only by perpetuating the reliance on oil, but by increasing production of bitumen-derived oil, which is more carbon-intensive than most other forms of crude. The second component was the impact of oil sands extraction on local ecosystems, specifically the impact of surface mining operations on the boreal forests of northeastern Alberta. The third concern revolved around the pipeline's original route, which traversed the sensitive Sand Hills region and the Ogallala Aquifer.

IN THE UNITED STATES, THE OIL SANDS CONVERSATION TOOK PLACE ALMOST EXCLUSIVELY IN THE CONTEXT OF THE PROPOSED KEYSTONE XL PIPELINE PROJECT.

Compared to *The New York Times*, oil sands coverage in *The Economist* was much more international in scope, focusing on three areas. The first was the European Union fuel quality directive debate early in 2012. Articles described proposed plans to label Canadian oil sands crude as more carbon-intensive than other sources of transportation fuel. Canada (and some European corporations like Shell) strongly opposed this proposal, despite the fact that virtually no oil sands products are shipped to Europe. In the end, the directive did not receive sufficient support to come into effect, but not before drawing significant international attention to the environmental impact of the oil sands.

The second main storyline was the Canada-Asia relationship surrounding the oil sands; specifically, pipeline access to Asian markets and, more recently, Chinese investment in Canada. Articles emphasized the expected economic benefits to Canada of selling oil to rapidly-growing Asia, and the need to explore alternative markets in the wake of the rejected Keystone XL project. In a related vein, some coverage was critical of the decision to reject Keystone XL as being little more than a shrewd political decision in an election year. Some attention was also given to the proposed takeover of Nexen by the China National Offshore Oil Corporation (CNOOC). Given the technical complexity of oil sands extraction, the bid was explained in *The Economist* as being as much about acquiring knowledge and expertise as about acquiring assets.

The third oil sands story in *The Economist* focused on the broader debate over the economic benefits and environmental costs of additional development. The magazine noted the importance of the oil sands to the Canadian economy and the need to access new markets to absorb increasing production. At the same time, it highlighted the opposition to development generally, and to pipelines specifically. The opposition to pipeline construction, expansion, or reversal was noted to come from both local (an oil tanker spill tarnishing scenic Vancouver or destroying a fishery treasured by Aboriginals) and global (the pipelines are the arteries that bring "dirty oil" to market) concerns.

ONE STORY THAT RECEIVED CONSIDERABLE ATTENTION IN *THE GLOBE AND MAIL* WAS THE OIL SANDS AS AN EMERGING REGIONAL FRICTION POINT.

Not surprisingly, Canadian media cover a wider range of oil sands topics. One story that received considerable attention in *The Globe and Mail* was the oil sands as an emerging regional friction point. Several events drove this coverage, beginning early in the year when Ontario Premier Dalton McGuinty suggested that, by driving up the value of the Canadian dollar, oil exports from Alberta were to blame for Ontario's manufacturing woes. This "Dutch Disease" argument was later picked up by the newly-minted federal New Democratic Party leader, Thomas Mulcair, who argued that Alberta's prosperity comes at the cost of growth elsewhere in Canada. As a solution, he suggested that the full environmental costs of oil sands development need to be reflected in operators' bottom lines.

More recently, the focus of regional tensions has shifted to the perceived balance of benefits and risks regarding the proposed Northern Gateway pipeline. BC Premier Christy Clark critiqued the proposed pipeline on the grounds that her province bears all the risks of a potential oil spill while receiving a relatively small share of the economic benefit. This position has put her at odds with Alberta Premier Alison Redford who has steadfastly refused to share provincial royalty revenue and for whom Northern Gateway is an infrastructure project like any other pipeline, highway or rail line that crosses provincial borders.

Another story that emerged late in the year was Enbridge's proposal to reverse the flow of its Line 9 pipeline, bringing western Canadian crude oil to refineries in Quebec. This relatively innocuous proposal began to capture media attention in the fall, with ENGOs and some Quebec provincial politicians suggesting that oil sands crude was unwelcome in their province (even though Line 9 will be mostly transporting oil from conventional sources).

When regional tensions flare, the national energy strategy subject tends to be raised as well. When Premier McGuinty extended the olive branch in the aftermath of his remarks, he emphasized the importance of coming together to craft a national energy strategy that had room for Ontario's recent green energy investments and Alberta's oil sands. By contrast, in a bid to make her point about Northern Gateway, Premier Clark refused to participate in national energy strategy discussions at a Council of the Federation conference several months later.

WHEN REGIONAL TENSIONS FLARE, THE NATIONAL ENERGY STRATEGY SUBJECT TENDS TO BE RAISED AS WELL.

Foreign investment in the oil sands was also covered more extensively in the national media. After a number of smaller takeovers by Chinese companies earlier in the year, it was announced in July 2012 that CNOOC was offering \$15.1 billion to acquire Nexen – the largest Chinese foray into the oil sands yet. There was much speculation in the media about what China is after with these deals. In addition to acquiring expertise, it was suggested that China may be looking to secure reliable access to natural resources and to improve its international reputation as a source of foreign direct investment. These takeovers also gave *The Globe and Mail's* editorial board the opportunity to muse about the need for more clarity in the federal government's net benefit test which must be passed in order for any major foreign acquisitions of Canadian companies to proceed.

Like the foreign publications we surveyed, *The Globe and Mail* devoted considerable space to pipeline issues, although it tended to focus more heavily on issues surrounding Enbridge's proposed Northern Gateway project. Articles covered a variety of subjects including the potential economic costs of not building a pipeline to the West Coast and the Alberta-BC tensions noted above. Considerable space was also devoted to federal government plans to streamline the environmental and regulatory review process for major projects, as well as the controversial plan to allow the federal Cabinet to override National Energy Board decisions.

As the media outlet in our scan closest to the action, *The Calgary Herald* had by far the largest number of oil sands stories of the publications we examined. Nearly all of the subjects mentioned above were also touched upon in the local media coverage, with emphasis on regional tensions within Canada, changes to the regulatory and environmental review processes, and market access issues.

However, *The Calgary Herald* also covered some important topics that did not receive national or international attention, largely because they reflected more local concerns. A notable example is the conversation around "adding value" to oil sands extraction. This issue centres on whether or not Alberta should attempt to capture more of the economic benefit of oil sands extraction by increasing the amount of bitumen upgraded and refined locally before sending it out of the province. The provincial government had initially put policies in place to support such activities through its Bitumen Royalty in Kind (BRiK) program. However, it began to retreat from that position early in 2012 based on concerns that, if it did not make economic sense for the private sector to invest in refining capacity on its own, it would not make sense for the

province to get involved either; BRIK projects would expose the provincial government to too much financial risk. It was also suggested that additional upgrading and refining would increase Alberta-based GHG emissions, fuelling existing criticisms of the province on the environmental front.

All the other major political parties in Alberta opposed this policy shift. During the spring provincial election campaign, NDP leader Brian Mason promised to move ahead on four proposed upgrader projects. The Liberals demanded an ethics commissioner investigation into the cancellation of one of the projects earlier in the year, and the Wildrose Party opposed the project's cancellation as well.

Measures taken by oil sands companies to address environmental and social concerns were another subject covered locally that received comparatively less attention in other media outlets. Specific issues included changes to the oil sands monitoring framework; the federal and provincial governments announced a more extensive monitoring system that would be independent of the oil sands industry. The creation of Canada's Oil Sands Innovation Alliance (COSIA) also received local coverage. The idea of the organization is to share environmental research and innovative solutions to deal with environmental impacts of oil sands extraction. This was viewed as important to maintaining the industry's social license to operate. Finally, there were a number of articles about the Alberta government's efforts to develop carbon capture and storage (CCS) capability as part of its emissions-reduction strategy.

MEASURES TAKEN BY OIL SANDS COMPANIES TO ADDRESS ENVIRONMENTAL AND SOCIAL CONCERNS WERE ANOTHER SUBJECT COVERED LOCALLY THAT RECEIVED COMPARATIVELY LESS ATTENTION IN OTHER MEDIA OUTLETS.

Pipeline leaks also featured in *The Calgary Herald's* coverage. In the aftermath of two spills in May and June in Alberta in 2012, the provincial government announced a pipeline safety review to ensure that public trust in pipeline transportation is not further eroded. A relatively small leak in an Enbridge pipeline in Wisconsin also drew media attention in July 2012, at a time when the US National Transportation Safety Board's (NTSB) investigation into the Kalamazoo spill was making news.

Implications for the Oil Sands Industry

The always-evolving oil sands conversation covers a wide range of subjects and issues.

However, in analyzing this conversation, five broad themes emerge. These are:

- 1 Pipeline construction & market access
 - 2 Regional tensions & regional cooperation in Canada
 - 3 Government policies toward oil sands development
 - 4 Foreign investment & control over the oil sands
 - 5 Social licence to operate & reputation management
-

To be sure, there is considerable overlap across these themes; any given issue or newspaper article may touch on several at once. This is especially true of pipeline-related stories as each of the other four themes include issues that relate to, or are natural extensions of, the pipeline debate.

The overlap between these themes is the result of the fact that, at its core, the public debate over oil sands development boils down to one overarching meta-theme: the economic benefits of increased production versus the associated environmental costs or potential risks. In essence, therefore, the five themes represent the different forums in which the broader development debate is currently taking place.

1

Pipeline construction & market access

Pipeline construction and market access has become the proxy issue for the entire oil sands development debate. This is not to say that every media story about the oil sands focuses on pipelines. However, nearly all issues related to oil sands development find their way into the pipeline debate.

The expansion of pipeline capacity, whether it be to the west, south or east, is critical to future oil sands expansion. Not only do pipeline constraints force Canadian producers to export at a discount to benchmark crude prices, but changing economic and political conditions place further doubt on the prospects for growth in US exports.

Meanwhile, environmental groups have been extraordinarily successful at raising the profile of health and safety issues around pipeline transportation. This not only played a key role in delaying the Keystone expansion, but in hampering proposals to send diluted bitumen to the west coast or to eastern Canada as well.

Addressing resistance to expanding pipeline capacity calls for a multi-faceted strategic response. While many facets of that response find their way into the other themes discussed below, a critical one does not: the economic justification for expansion or, more specifically, the economic costs of failing to proceed.

PIPELINE CONSTRUCTION AND MARKET ACCESS HAS BECOME THE PROXY ISSUE FOR THE ENTIRE OIL SANDS DEVELOPMENT DEBATE.

Although there has been some modest coverage of this issue in Canadian media, there has been a general failure within the industry and government to communicate effectively the importance of the oil sands to the national economy and the potential consequences of arrested development. Part of the challenge may lie in the fact that central Canadians are unaccustomed to the idea that something of “national” importance can take place outside of their region; western Canada as an engine of the national economy goes against the longstanding and outdated perception of Canada as a centralized economy buttressed by eastern and western hinterlands. Convincing all Canadians that the investment, jobs and government revenues that come out of the oil sands (and the pipelines required to transport the oil to market) benefit the entire country is critical to the long-term success of the industry.

2

Regional tensions & regional cooperation

An emerging theme in the oil sands discussion is the perception that all the economic benefits of resource development accrue to Alberta while the impact on the rest of the country is negligible, or even negative. This belief has fuelled the rise in interprovincial tensions within Canada, as documented above.

These tensions, and particularly the Alberta-BC feud over the distribution of benefits and risks from the proposed Northern Gateway pipeline, have hampered efforts to collaborate on a national energy strategy. Although it remains an amorphous concept even after years of discussion, there is much to be gained by governments working together toward a shared vision of energy development. BC’s refusal to participate in such an initiative without first resolving the pipeline benefits/risks issue is a clear setback.

We mentioned above the fact that the economic impact of the oil sands may be underappreciated outside of Alberta. A related issue is that the extent to which oil sands activity spills over into other provinces is also not well-understood. Work has been done on this subject, most notably by the Canadian Energy Research Institute (CERI), but this message has had difficulty finding traction in other provinces.

Also needed is a better understanding of how the oil sands affect other sectors of the Canadian economy. Crude oil production and exports have undoubtedly helped to drive up the Canadian dollar, affecting the competitiveness of our products in international markets. However, research has largely dismissed the “Dutch Disease” argument – that oil-

RESEARCH HAS LARGELY DISMISSED THE “DUTCH DISEASE” ARGUMENT – THAT OIL-INDUCED EXCHANGE RATE EFFECTS ARE THE UNDERLYING CAUSE OF THE MALAISE IN THE CENTRAL CANADIAN MANUFACTURING SECTOR.

induced exchange rate effects are the underlying cause of the malaise in the central Canadian manufacturing sector.

Even so, because the economic benefits of the oil sands to central Canada are less clear, the environmental arguments against the resource tend to carry more weight in that part of the country. Moreover, for as long as economic growth prospects in Alberta and central Canada are perceived to be moving in opposite directions, the prosperity generated by oil sands development in Alberta could inflame regional jealousies and tensions elsewhere in Canada.

The most common proposed solution to these tensions is to impose a carbon tax or some other polluter-pay cost on oil sands producers. However, there remains some confusion about the impact such policies would have on the broader economy, including on energy prices for consumers. Moreover, to apply this idea consistently requires that similar costs be imposed on manufacturers, vehicle owners and other polluters as well. A carbon tax is not necessarily a bad policy option, but there is a clear need for a more honest discussion about the effects it would have beyond the immediate impact on oil sands extraction.

3

Government policies toward oil sands development

The third major theme in the present oil sands conversation is government policy toward resource development. The main story behind this theme is the strong degree of support that the industry currently enjoys from both the federal government and the Alberta government.

From the federal perspective, this support was made clear in the 2012 Budget which included commitments to streamline the lengthy environmental and regulatory approval process for resource projects as well as money to support pipeline safety and oil tanker inspections. Ottawa has also been active in lobbying activities in the US, especially regarding the Keystone pipeline, as well as publicly emphasizing the need to find new markets for Canadian oil.

FOREIGN OWNERSHIP HAS LONG BEEN A COMPONENT OF THE OIL SANDS DISCUSSION BUT IS TAKING ON NEW LIFE AS CHINESE STATE-OWNED ENTERPRISES (SOES) BECOME MORE ACTIVE IN THE FIELD.

The recent election campaign and subsequent statements by the Alberta Premier have provided a useful insight into the future oil sands-related policy priorities for the provincial government. Among these are moving forward on the debate over adding refining capacity and promoting energy-related value-added activities in the province. The province has also indicated its intent to address skilled labour shortages by increasing targeted immigration and potentially easing restrictions on work permits for US citizens. Other issues that have been raised include the royalty regime and the need to increase supply chain activity outside the province to ease local constraints as well as to build support for the industry in other provinces.

While the oil sands are likely to continue to receive provincial government policy support into the foreseeable future, there are risks on the federal side. For one, the current federal government has been so adamant in its support that it has, at times, been portrayed in the media as an apologist for the industry. This seeming lack of objectivity can run the risk of undermining public support for legitimate and much-needed policy reforms like the move to streamline the regulatory review process.

4

Foreign investment & foreign control of the oil sands

Foreign ownership has long been a component of the oil sands discussion but is taking on new life as Chinese state-owned enterprises (SOEs) become more active in the field. There have been a number of significant investments by Chinese companies in Canadian oil sands projects since 2009, but the recent \$15.1 billion bid for Nexen by CNOOC has brought the issue to the forefront of the investment discussion.

While there has always been some lingering public aversion to foreign companies extracting our natural resources, for many, operations by a *de facto* arm of the Chinese state is a different matter altogether. The CNOOC bid has raised a number of critical policy questions for public debate. These include: Is it appropriate for a foreign SOE to operate a

business in Canada? Will such a company be guided by economic or political objectives? To what extent will direct investment give China influence over the development of Canadian energy policy? Does it make sense for Canada to accept Chinese investment when reciprocal access is denied? If the CNOOC bid is granted, will it create a precedent and open the door for a flood of Chinese takeovers? Conversely, if the bid is denied, will it put a chill on future oil sands development?

The answers to some of these questions will come when the federal Industry Minister concludes his review of the CNOOC bid. Those that remain will be central to the oil sands debate into the future.

5

Social licence to operate & reputation management

Pipeline construction and market access is the most widely-covered of our five oil sands themes, but the most important for the future of the industry is maintaining the social licence to operate. Put simply, the oil sands cannot grow or develop without broad public support. Resistance to pipeline construction and pipeline reversals, corporate boycotts of oil sands crude, and the European fuel quality debate all provide a taste of the kind of problems the industry could face if it fails to get the public support it needs.

To get that support, governments and the industry need to address effectively the broad concerns that many have about the oil sands. These concerns include some issues covered in previous themes – the distribution of economic benefits, for example – but by far the most important is the environmental and safety concerns surrounding oil sands development and the transportation of bitumen.

Media coverage suggests that governments and industry have used three different approaches to improve the reputation of the oil sands. The first of these is direct efforts to address environmental and social concerns and thus build the social licence to operate. These include industry-government partnerships on initiatives such as carbon capture and sequestration; community engagement and reclamation efforts by industry; and continued process improvements that have lowered the intensity, if not the volume, of GHG emissions from oil sands production.

RESISTANCE TO PIPELINE CONSTRUCTION AND PIPELINE REVERSALS, CORPORATE BOYCOTTS OF OIL SANDS CRUDE, AND THE EUROPEAN FUEL QUALITY DEBATE ALL PROVIDE A TASTE OF THE KIND OF PROBLEMS THE INDUSTRY COULD FACE IF IT FAILS TO GET THE PUBLIC SUPPORT IT NEEDS.

The second approach has been to focus on communicating key messages. This has included responding to misleading, inaccurate or outdated claims made about the oil sands as well as highlighting the economic benefits of development, environmental successes or involvement in local communities.

More rarely, pro-oil sands arguments have been counter-polemic, such as when the term “ethical oil” entered the public vernacular via Ezra Levant’s book *Ethical Oil: The Case for Canada’s Oil Sands*. However, not all industry backers are keen to ally themselves with the idea that Canadian oil is morally superior to that of alternative suppliers. The tone of media coverage on the “ethical oil” argument has also been decidedly mixed.

The final approach has been to undermine the credibility of oil sands critics. As portrayed in the media, the industry has generally steered clear of this tactic, but governments have not. Efforts to clamp down on charities engaged in political advocacy and accepting foreign donations is the most high-profile example. While this initiative may have been motivated by legitimate concerns, it was nevertheless widely portrayed as a transparent attack against environmental groups for their opposition to oil sands development and projects like the proposed Northern Gateway pipeline. Funding cuts to scientific and research organizations have also been cast as a “war on science” in which Ottawa targets organizations producing information that might run counter to their agenda, including oil sands development.

Continued efforts to address environmental and safety concerns, effective communication of good news stories and rebutting false claims are all necessary for the industry to maintain its social licence to operate. However, media coverage suggests that polemics and efforts to undermine the credibility of detractors are less effective strategies. In particular, if governments appear to be little more than biased cheerleaders for the oil sands, it could undermine the credibility of legitimate industry efforts to build social capital.

CONCLUSION

THOUGH AT ITS HEART A DEBATE OVER THE BENEFITS AND COSTS OF RESOURCE DEVELOPMENT, THE OIL SANDS CONVERSATION IS CONSTANTLY EVOLVING.

Economic conditions, political developments and new evidence about the extent and implications of climate change are just a few of the factors that influence the discussion. At present, that debate is playing out across five broad themes: pipeline construction and market access; regional tensions and regional cooperation; government policies toward oil sands development; foreign investment and foreign control over the oil sands; and social licence to operate and reputation management.

These five themes, and their implications for the long-term viability of the oil sands, speak to the need for action in three main areas. First, the industry needs to strengthen its social licence to operate. This must be done by continuing to address public concerns about the environmental impact and safety implications of development; by continuing to pursue process innovations to reduce greenhouse gas intensity; by engaging stakeholders and working to accommodate their concerns; and, perhaps most importantly, by communicating its success stories in a way that is not easily dismissed as mere spin-doctoring. This latter concern requires building bridges with those environmental groups and other stakeholders who are not completely inflexible in their opposition to oil sands development.

Second, greater emphasis needs to be placed on demonstrating and effectively communicating the economic importance of the oil sands – both as an engine for present and future economic growth and in terms of the positive impact that oil sands activity has outside Alberta. Some work has been done in this area already, but accusations that the central Canadian economy is harmed by oil sands development, or that BC does not benefit sufficiently from pipeline construction, speak to the need for a better understanding of the role that the oil sands play in the Canadian economy.

Finally, it is critical that the oil sands remain economically viable and an attractive place in which to invest and do business. This means that efforts to address environmental concerns should also take into account the impact that such measures may have on Canada's international economic competitiveness. It also speaks to the need for additional streamlining and accelerating of the regulatory and environmental review processes. However, any such reforms must not come at the expense of rigour, otherwise the industry will find its social licence to operate diminished by concerns that it is running roughshod over the environment. With the rise in Chinese investment in the oil sands, additional clarity is also needed from the federal government regarding investment rules and the "net benefit" test applied to foreign takeovers. While this is an issue for the federal government specifically, there may be an opportunity for the industry to work with government to influence the direction of any policy changes as they relate to the energy sector to ensure that the oil sands continue to attract the capital they need to continue to develop.

ENDNOTES

¹ "‘Dirty’ image puts Canada in climate doghouse at Copenhagen," *The Globe and Mail*, December 6, 2009.

www.theglobeandmail.com/news/world/dirty-image-puts-canada-in-climate-doghouse-at-copenhagen/article1205573/

² See, for example, "The day the oil-sands battle went global," *The Globe and Mail*, January 21, 2012.

www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/the-day-the-oil-sands-battle-went-global/article546574/?page=all.
