

Lands and People

Newsletter

Northern Gateway kept alive as a threat



Image: Enbridge's project is on life support

Project is a waste of public time and money

By Eric Swanson, Corporate Campaigner

After six years of trying, Enbridge still does not have the necessary economic commitments it needs to build its Northern Gateway project.

For other pipelines, this would mean a quick burial of the idea; but Gateway is being kept alive with a blend of regulatory money provided by confidential oil patch interests, and political statements in support of *the idea* that the project represents.

The evolving result is a massive waste of public and private time and money as Gateway triggers the establishment of review panels, sucks up the time of stretched local officials and First Nations, misdirects the economic hopes of underemployed people and communities, and forces whole regions of British Columbia to replay an emotional battle against oil tankers that many had hoped was won back in the 70's.

No Supply Contracts = No Real Pipeline

Oil pipelines don't get built until there's oil to put in them. This sounds self-evident,

but it's a crucial point.

Normally, in the pipeline business nothing happens on the ground until "shippers" – companies like Exxon or Shell that produce oil – sign contracts committing them to putting a certain volume of oil into the proposed pipeline, or paying tolls as though they were.

Without supply contracts, it's normally too risky for pipeline companies like Enbridge to spend money on regulatory studies, community meetings, public relations, and First Nations agreements. It was for lack of these agreements that Enbridge shelved their 'Trailbreaker' pipeline proposal through Ontario and Quebec last year.

Supply contracts are the lifeblood of pipeline proposals, and Enbridge's Northern Gateway doesn't have a single one.

Oil Patch Doesn't Need Gateway

The global economic crisis has slowed the growth of the tar sands, with the industry saying there won't be enough new oil to justify building new big pipelines like Northern Gateway until sometime in the 2020's. (1)

'That's true', says Enbridge CEO Patrick Daniel, "but let me ask that you think about Gateway as a pricing play." (2)

What Daniel means is that he thinks there's a pricing advantage for tar sands companies in sometimes selling to Asian markets when US prices are low compared to the rest of the world; and that this sometimes-advantage could outweigh the loss shippers would be forced to absorb when they couldn't produce enough oil to meet their commitments.

But if shippers saw real value in an in-the-ground pipeline to BC's coast by Enbridge's advertised completion date of 2015, they would be signing supply contracts for it. Instead, they're bringing action against Enbridge for building too much pipeline capacity too fast, and committing their oil to the Keystone pipeline being built to the US Gulf Coast by TransCanada, Enbridge's archrival. (3) This is consistent with prevailing oil patch sentiment that the US is the tar sands' "natural market", the place that for various reasons tar sands companies would prefer to go.

In the absence of committed shippers Northern Gateway should be a dead idea, like Trailbreaker, but a confidential cash infusion is being mixed with political puff puff to keep the project artificially alive.

The Necromancers

In 2008 Enbridge received \$100 million from a confidential consortium of "Alberta producers and Asian refiners" to completely fund the project through the regulatory phase. (4) This is an unusual arrangement; it means that the project can look alive when it really isn't, and the confidential nature of the support means that we don't even know whose project this really is. However, the geopolitical interests behind the \$100 million are becoming increasingly clear.

Any Asian states kicking into the kitty are likely interested in an actual pipeline that would link the tar sands to their energy-hungry economies. The problem is that although Asian companies have

been buying up assets in Alberta recently, their actual production of oil remains miniscule, not nearly enough to vitalize Gateway on their own. This is especially true given that China, the largest Asian presence in Alberta's oil patch, has given the project the cold shoulder.

For Alberta's non-Asian producers – heavy with American ownership – the interest doesn't seem to be in an actual, near-term pipeline. If it was, they would be partnering with the Asian companies and signing supply contracts; instead they're throwing around chump change and empty public statements in support of the idea Northern Gateway represents. (5)

Hinting at the explanation behind this 'puff puff', BMO chief economist Sherry Cooper: "We must export oil to China... because it gives us more leverage with the U.S... it makes it more difficult for [them] to threaten us with comments about dirty oil." (6)

In the absence of supply contracts, this suggests that the real value of Northern Gateway to Alberta's oil patch is not as an actual pipeline, but as a threat against existing and proposed US climate change measures that would restrict access to the tar sands' "natural market". (7)

The purpose of the \$100 million, therefore, seems to be to make the threat of Asian export more credible, by making what is an economically dead project, look alive. (8)

Not so coincidentally, the threat of Northern Gateway is being used with enthusiasm by Alberta's Premier and Energy Minister, and by oil lobbyists in Canada and the United States. (9,10,11,12)

The Public Cost of an Oil Patch Threat

Until there are supply contracts there is no real pipeline, certainly no 'need and necessity' for one as required by Canada's National Energy Board. And until there's a real pipeline to talk about, public time and monies spent on reviewing this project basically buy nothing more than credibility for the oil patch's threat. (13)

That's a problem, because:

- It sucks resources away from developing real, long term, and sustainable solutions for communities facing underemployment, environmental depletion and degradation, and other issues.

- It delays meaningful action on climate change in the US, the jurisdiction that our Prime Minister has said he is modeling Canada's climate change policy on.

- It draws whole regions of British

Columbia back into an emotional battle against oil tanker traffic that many had thought was won back in the 1970's.

To Dogwood Initiative, Enbridge's Northern Gateway project looks like a bad deal for British Columbians. But regardless of whether you're for or against the project, there is serious concern is that Enbridge and their confidential backers might just be taking us all for a ride.

Making a Dead Thing Stay Dead

A legislated ban on oil tanker traffic through BC's north coast would clear the air once and for all. With a ban in place our coast would be protected, there would be no Northern Gateway threat to waste time and money on, and we could all focus on strengthening our communities with real, sustainable solutions.

(1) Canadian Association of Petroleum Producers - Crude Oil Forecast, Markets, and Pipeline Expansions; June 2009.

(2) Enbridge Q2 2008 Earnings Conference Call

(3) TransCanada Pipeline Ltd's 'Keystone XL' pipeline, which is competing with Northern Gateway in the category of 'New Market Access', has commitments for fully 76% of its capacity. Northern Gateway has zero commitments.

(4) Refer to this blog for more information: <http://dogwoodinitiative.org/blog/enbridges-100-million>

(5) E.g. Husky Energy President John Lau: "[Northern Gateway] is very important from a Canadian oil producers' point of view." Source: "Opening the Door: Pipelines are lining up to satisfy Asia's growing thirst for Canadian Crude" – Oilweek Magazine.

Re: "chump change" - The \$100 million fund is comprised of \$10 million 'founder shipper' units, sold to each of the confidential backers. For a company like Exxon, \$10 million represents 0.0002% of the profit they made in 2008 alone – i.e. an insignificant amount and not indicative of support for an actual pipeline.

(6) It's possible that some of the confidential backers are actually interested in seeing if Enbridge can deal with the myriad environmental, social, and First Nations concerns associated with the project in a way that is satisfactory to

Canada's regulators – but in a way that requires a minimum of economic commitment from them. That way, Enbridge could 'back-pocket' an approval for shippers until economic conditions are right for an actual pipeline in the ground; e.g. some time in the 2020's. It's important to remember that the shippers control the timeline on the project, not Enbridge.

(7) The threat goes like this: 'If you squeeze us with climate change policy' says Canada's oil patch to the US, 'we'll just ship a bunch of oil to Asia, your economic competitor, so that you really just end up squeezing yourself by decreasing your own energy and national security.'

(8) "Pipeline to West Coast gains backing: Enbridge expects 'solid shipping commitments' for Gateway" – Globe and Mail. Note that in the source article Enbridge was expecting firm commitments 'soon', they have since abandoned that claim, saying they hope to get 'President Agreements' later this year; refer to note (13).

(9) "Alberta to look at exporting oil overseas: Stelmach" – CBC News, May 9th 2008.

(10) "Native groups call for pipeline boycott" – Globe and Mail, Jan 16th 2010.

(11) Refer to this blog for more information: <http://dogwoodinitiative.org/blog/whose-coast-is-it-anyway>

(12) "Climate slips of US agenda" – The Toronto Star, Jan 25th 2010.

(13) Enbridge's CEO Patrick Daniel has said that the company won't file an application for Northern Gateway, thereby triggering a further massive expense of resources and time in a public review, until he signs 'President Agreements' with his confidential backers. Enbridge's latest estimate is that this might be done by March 2010. But President Agreements aren't supply contracts; indeed there's been no indication as to what Mr. Daniel is exactly seeking in them. They could be as simple as a 'handshake and yes we still like the idea'. Daniel has said that he doesn't intend to seek firmer commitments until later in the regulatory review, well after public time and expense has begun to stack up. Daniel himself supports a reformed two-step regulatory process; where the 'need and necessity' of a project is confirmed before resources are spent on social and environmental reviews. If that was in place now Northern Gateway would be a closed file.