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Chair

Mr. Leon Benoit

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● (1530)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good afternoon, everyone. We are here to continue our study on market diversification in the energy sector. We're looking at diversification in the markets that Canada does, and could, ship our product to. We're also looking at diversification in the products themselves, products that can be developed in Canada from these natural resources.

We sent the witnesses five or six questions for them to consider in making their presentations. I would encourage the witnesses, as much as possible, to try to deal with and answer those questions and, certainly, to stick to the topic of diversification in the energy sector.

With that, we'll get right to the presentations. Today at our committee, we have as an individual Dr. Jack Mintz, the director and Palmer Chair in Public Policy at the School of Public Policy at the University of Calgary. We have from the Alberta Federation of Labour, Mr. Gil McGowan, the president. We have from the Canadian Chamber of Commerce, Mr. Scott Willis, the director of natural resources and environmental policy. We also have via video-conference from Stavanger, Norway, as an individual, Mr. Rolf Wiborg, an engineer.

Welcome to all of you. We'll have the presentations as much as possible in the order they appear on the list, starting with Dr. Mintz.

If you are ready to go ahead with your presentation, you have about seven minutes. Go ahead please, sir.

Dr. Jack Mintz (Director and Palmer Chair in Public Policy, School of Public Policy, University of Calgary, As an Individual): Thank you very much.

Let me, first of all, thank you for inviting me to speak on the issue of what I'll call energy market growth and diversification. It's certainly a pleasure for me to be before this committee again and to have an opportunity to discuss a number of issues that are on your mind. So I'll just make a few brief remarks for that reason.

It's not a surprise to you that currently Canada's oil and gas is exported primarily to the United States. It is my belief that there are significant economic and geopolitical gains to Canada if we both extend and diversify our exports to other markets besides the United States. My purpose today is to explain those benefits to Canada and to argue that pipeline capacity must be improved if we are to take advantage of these immense benefits.

Let me start with the economic case. As is well known, economic growth has emerged in many Asian, Latin American, and African countries, with less growth coming from Western economies. Even on a longer run basis, it is viewed that most energy demand will come from the emerging economies and less so from North America. It is in the Canadian interest to expand our energy production to meet international demand.

The economic case for energy market growth and diversification is clear-cut and supported by several credible economic studies. These studies have suggested the following aggregate benefits.

First, additional pipeline capacity of 700,000 barrels per day, if built, would increase GDP by over $100 billion from 2016 to 2030, due to the expansion of pipelines to the United States, as well as by reducing discounted oil prices. This is work done by my colleague Professor Michael Moore at the School of Public Policy at the University of Calgary. In the same study, new capacity of 500,000 barrels per day would increase GDP by $16 billion from 2016 to 2030, with oil sold to the Californian and Asian markets.

Second, overall new oil pipeline capacity of close to 1.2 million barrels per day would increase Canada's GDP by 1% annually over the period 2016 to 2030. Again, this is from the work done by my colleague Professor Michael Moore.

Third, federal and provincial government revenues would increase by over $25 billion in the next 15 years from the additional pipeline construction and shipment of 1.2 million barrels to the U.S. Gulf Coast, California, and Asia. Again, this is from the work done by Professor Michael Moore.

Fourth, the economic effects of the Northern Gateway would provide $125 billion in net benefits to the Canadian economy during the period 2010 to 2048, as pointed out in the work of Robert Mansell and Wright, due to the expansion of exports and the oil price uplift, with the discounted value ranging from $42 billion, with a 5% discount rate, to $16 billion with a 10% discount rate.

Fifth, the Northern Gateway pipeline project is estimated to increase government revenues by $81 billion over 30 years.

These are exceedingly large numbers associated with energy market expansion. Whether the numbers are off, let's say, plus or minus by as much as 20%, doesn't matter to the substantial economic gain realized from energy expansion. Add natural gas expansion, and the numbers become even bigger.

It would be a major loss to the Canadian economy, investment, jobs, and government revenue if pipeline expansion does not take place. Professor Michael Moore estimates, in his scenario, that additional pipeline capacity would increase jobs by 650,000 employment years. The additional tax revenues would increase by close to $1.7 billion annually, helping pay for roads, hospitals, and schools.

A number of criticisms on the economic side have been made about pipeline expansion, which I would like to address. The first is that other regions of Canada would not benefit from the growth of oil and natural gas. Yet, studies would suggest otherwise. For example, Professor Moore estimates that Ontario would realize a pick-up in GDP of $3.5 billion in the next 15 years. He also estimates that Quebec would benefit by $777 million.

Generally, typical studies tend to use an analysis that's based on input-output tables of the Canadian economy. With growth in one part of the economy, it feeds through other parts of the economy through more demand for products and services. Also, governments receive more revenue from taxing goods and services, workers, and profits. The federal government itself would receive over 40% of the revenue from expansion.

● (1535)

I believe that such studies likely underestimate the gains to the rest of the economy from pipeline expansion. The reason is that they do not account for changes in the prices of products and inputs. The growth in the west arising from more energy production pushes up wages and prices in those regions. Other parts of Canada become more competitive, resulting in a shift of production to cheaper jurisdictions. This in turn will push up real wages and incomes elsewhere. This is partly offset by the rising exchange rate, which will affect export-intensive industries; but overall the Canadian economy is richer, in terms of its purchasing power, to buy international commodities.

Another issue is with respect to the social costs of energy production, including environmental costs. Pricing these costs, such as a cap-and-trade regulatory system or an emissions tax, rather than limiting selected business activities, best deals with these issues. These pricing issues are tremendously complicated, as in the case of climate change, which relies on international coordination, not just on one country.

As a recent U.S. energy department study shows, carbon dioxide emission increases in China, primarily due to coal production, have swamped reductions in the United States, Canada, and Europe during the years 2005 to 2011.

Let me now turn briefly to the geopolitical case. As I've argued in many earlier writings, there is another element to market diversification that goes beyond the economic case: improving our bargaining position relative to the United States. Canada, being one-tenth the size of the U.S. economy, simply does not have that much leverage when it lacks alternative markets for our products.

For example, we've had years of difficult negotiations with the United States with respect to softwood lumber exports. This is now changing due to market diversification. Canadian exports of forest products to the United States have dropped from nearly 80% in 2001 to 60% in 2011, with growing demand in Asia. Our ability to export to other markets strengthens our hands in negotiations.

While our relationship with the United States is critical, given our economic and cultural ties, at times it is stressed, whether a result of trade restrictions, Buy American regulations, or border levies. In the case of energy, the United States is increasing its own fossil fuel production and importing relatively expensive offshore oil and cheap Canadian oil. With pipeline capacity expanded from Cushing, Oklahoma, to the Gulf Coast, the U.S. would be able to substitute cheaper North American oil for more expensive and less reliable Venezuelan and Mexican oil, which is subject to stoppages. Without alternative energy markets, we begin at a disadvantage in negotiating better terms for our energy exports.

Taking this a step higher, there's a significant advantage to market diversification in terms of not just economics but also geopolitics. If the United States prefers our oil to that of less stable countries, we can command a premium, whether taken in higher prices or in some indirect way. This, however, will arise only if we have a credible threat, which will only come from having other markets to trade with.

Thank you.

The Chair: Thank you, Dr. Mintz.

We go now to the Alberta Federation of Labour, Mr. Gil McGowan, president.

Go ahead, please, sir, with your presentation. You have around seven minutes.

Mr. Gil McGowan (President, Alberta Federation of Labour): Thanks, Mr. Chairman. Thanks to the committee.

In order to make the most efficient use of my limited time, I'm going to present you with a series of numbers or groups of numbers that illustrate important points about Alberta's oil sands industry. Once I finish with the list, I'll connect the numbers to your discussion about market diversification and I'll suggest a few policy conclusions.

The first set of numbers that I want to start with have to do with oil sands production: 1.5 million, 3 million, and 5 million. The 1.5 million represents current production from the oil sands. Three million is about what we expect in four or five years, and five million is what many industry observers expect over the medium term.

I'll move to the second set of numbers, which are 65%, 72%, 55%, 47%, and 23%. The 65% is the traditional amount of oil sands bitumen that has been upgraded in Alberta over the years; 72% is what former Alberta Premier Stelmach described as his government's aspirational goal for upgrading; 55% is today's reality; 47% is what the Energy Resources Conservation Board predicts will be upgraded in Alberta by 2017; and 23% is what the consultancy Wood Mackenzie predicts will be upgraded by 2025 because almost all of the new production is going to be exported in raw form.

The next number is 22,000. This is the number of Albertans currently employed in upgrading, refining, or petrochemicals. There was a report recently released by the petroleum sector council that predicts that the number going forward will remain at 22,000. Basically, no new jobs in upgrading in Alberta are predicted for the medium- or long-term future.

Next is 17,000 versus 17. Seventeen thousand is the number of jobs that would be created—from a GDP analysis prepared by the Alberta Federation of Labour—if the volume of bitumen exported by the first Keystone Pipeline to the American Midwest were instead upgraded in Alberta. Those are direct and indirect jobs. The number of real jobs that were created by the pipeline over the long term, long-term jobs, was 17. Call me crazy, but given a choice between 17,000 and 17, I would choose 17.

Similarly, for the Northern Gateway pipeline our GDP analysis suggests that if the same volume of bitumen expected to be exported down the Northern Gateway were upgraded in Alberta, we would create 26,000 jobs, indirect and direct, versus 104 permanent jobs, by the industry's own admission at the Northern Gateway pipeline hearings.

Here's another set of numbers: 1.6, five, and seven. The 1.6 represents the number of jobs that are created in extraction-only oil sands development for every million dollars of investment, versus five jobs for every million dollars of investment for upgrading, and seven jobs created for every million dollars in petrochemicals and higher-product refining.

Five hundred million is a number that came from a company called North West Upgrading. They estimated that if their very small upgrader were in operation last year—it's only 37,000 barrels per day—it would have generated $500 million in government revenue in one year from this very small plant, but it's only because it's an upgrader and upgrading to diesel.

In terms of market access, here are some important numbers: 50% and 25%. Only 50% of refineries in our major market, the United States, have the capacity to upgrade unrefined bitumen. They are what we call coking refineries that can take the heavy oil sands and turn them into high-value transportation fuels. The remaining refineries are what we call cracking refineries that cannot process bitumen into high-value transportation fuels. So only 50% of the American market is available to us. In China only 25% of refineries have coking capacity.

The next number is $8 per barrel. In testimony to the National Energy Board on the Northern Gateway pipeline hearings, the expert hired by the Alberta government, a vice-president of Downstream Consulting for a firm called Wood Mackenzie based out of Houston, estimated that we lose $8 per barrel on the sale of our oil from Alberta every time we fill up the coking refineries in our major markets.

● (1540)

So as soon as those 50% of refineries become filled up, they spill into the cracking refineries, which can only turn bitumen into low-value products like asphalt. As soon as that happens, every single barrel that we sell is discounted by $8 per barrel. That's not just the ones that go to the cracking refineries; it's all of them, because the managers of the coking refineries realize that—pardon the pun—they have us over a barrel and they pay less.

Our federation of labour got access to documents previously not released by the Alberta government dealing with upgrading and its implications. The total number of pages was 8,000. There were two documents that we got our hands on. The first one was called “Alberta’s Value Added Oil Sands Opportunities” from two years ago. What it shows is that when we export diluted bitumen, or dilbit, we capture only 35% of the potential value chain. If we upgrade to synthetic crude we capture 70% of the value chain. With gasoline we capture 85% of the value chain. With petrochemical production we capture virtually 100% of the value chain.

The next numbers I will refer to are 40% and 30%. Forty percent was the price differential between the price of west Texas intermediate light sweet crude and the price fetched by Alberta dilbit when our current premier, Alison Redford, started to complain about the bitumen bubble, saying that the growing differential between the prices of the two products was causing a crisis in Alberta.

That leads me to the second document that we got in our freedom of information search. It was a document called the “Oil Sands Fiscal Regime Competitiveness Review”, done by the Alberta government. It demonstrates that over the last 20 years, the differential has actually been about 30%, so the differential is nothing new. The report also showed that when the differential reaches 23%—another important number—upgrading in Alberta actually becomes profitable. So the high differential is actually a good thing for the Alberta economy because it improves the economics of Alberta-based upgrading. Low bitumen prices are actually a real competitive advantage for Canadian upgraders.

Another number I want to draw your attention to is 30%. That is the volume of diluent that needs to be added to bitumen in order to make it flow down pipelines.

I'm going to wrap up with my conclusion. The conclusions based on these numbers—and there are more of them—is that low bitumen prices are not the result of lack of market access. They have to do with several factors. First is the low quality of our oil. Bitumen is not oil; it is a different product. As a result, it fetches a low price, and the overproduction floods our small market. When we fill those 50% of refineries in the States, that's what results in the discount.

Second, low bitumen prices are actually nothing to fear. Low-cost feedstock can actually be seen as a competitive advantage.

Third, producers are not troubled by the low prices for bitumen. If they were, they would be reducing production forecasts. They are not. What this shows is that they can make good profit even with lower prices.

Fourth, many producers, especially with American-based refining capacity, actually prefer low prices for bitumen because it allows them to buy low their feedstock and sell high the value-added product. I would submit to you that's what we should be doing as Canadians.

Fifth, we're selling the wrong product and we're looking at diversification in the wrong way. Instead of looking at geographical diversification of markets, we should be looking at product diversification, which would lead to market diversification. When we sell diluted bitumen, we sell only to the people who have coker refineries, and it's a small number. When we sell synthetic crude, we sell to all refineries in the world because they can handle the capacity. When we sell gasoline, diesel, or other high-value transportation fuels, we sell to everyone who has a car, a truck, or equipment to operate.

To conclude, when we prioritize value-added production over raw exports, everyone in Canada wins. Canadian producers get better prices. Canadian refiners get access to cheaper feedstock. Canadian workers get long-term jobs, some of the best in the economy. Canadian governments get revenue. The only ones who don't win when we prioritize value-added production are Chinese and US refineries, and I submit to you that that should not be this government's priority.

● (1545)

The Chair: Thank you, Mr. McGowan.

Our third presenter is from the Canadian Chamber of Commerce, Scott Willis, director of natural resources and environmental policy.

Please go ahead, Mr. Willis, with your presentation of around seven minutes.

[*Translation*]

Mr. Scott Willis (Director, Natural Resources and Environmental Policy, Canadian Chamber of Commerce): Thank you, Mr. Chair.

[*English*]

Members of the standing committee, ladies and gentlemen, thank you for the opportunity to address you here today.

I'm here on behalf of the Canadian Chamber of Commerce, Canada's largest industry association. We speak for 450 local chambers and boards of trade and represent 200,000 Canadian businesses on matters of federal and, in this case, national importance. My testimony will be more of a qualitative nature than a quantitative nature.

On the topic of market diversification in the energy sector, we believe that there are three primary issues at play that are helpful to understanding the situation in which we find ourselves.

The first is that we as a country don't know what it means to be an energy nation in the 21st century. There's a need to foster a real dialogue that can better inform our project and policy choices both at the federal and the provincial level.

The second is that we find ourselves too reliant on a single consumer for virtually all of our oil and gas exports. This impacts government revenues and consequently each and every Canadian citizen.

The third is that we have an opportunity as a western energy exporter to demonstrate leadership on the global stage when it comes to the way we extract, process, and export energy products and to balance that responsibility with appropriate regulation.

The Canadian Chamber of Commerce is of the view that the absence of reliable tidewater access for Canadian energy is among the primary competitiveness barriers facing our economy. Raising awareness of this issue among Canadians is at the forefront of our priorities for 2013.

Most Canadians would be surprised to learn about the 110,000 kilometres of transmission pipeline currently operating in this country and doubly so about their safety record of delivering in excess of 99.999% of their product to its intended destination. Most probably don't realize that the Line 9 originally ran from west to east or that we move hundreds of thousands of barrels of oil every day by train.

The energy renaissance currently under way in the United States has profound implications for North American dynamics because, while we as a nation are refocusing west towards Asia, we find ourselves constrained by infrastructure that points south. This disconnect between opportunity and ability has significant implications for our economy.

Our inability to service overseas markets is slowing investment and development in our resource sectors. Global energy demand is set to rise by one-third by 2035 with as much as 90% of this new demand being driven by non-OECD nations, particularly in Asia. Even Asian countries such as Japan have made policy choices that place our natural resources squarely in their sights.

This is not an argument against increasing our energy exports to the United States, but simply provides an indication of why being a supplier to Asia is a top strategic priority for the Canadian energy sector. That is why a fact-based national conversation about energy is vital at this point in time.

Oil and gas represent over half of the global energy supply and power virtually 100% of transportation. This sector is responsible for nearly a fifth of world GDP and is prominently involved in every other type of economic activity.

This consideration takes on heightened importance if we examine the world's proven reserves of oil and how they are controlled. Roughly four of every five barrels of oil is under the management of a state-owned enterprise. The largest of these firms, Saudi Aramco, is estimated to be worth four times as much as ExxonMobil and the rest of the top 10 publicly traded global energy companies combined.

With so much of the world's energy supply under the control of state governments, Canada's role as a market-driven, energy exporting nation can be used to our advantage.

An equally important consideration is to ensure an environmentally aware population of the safety provisions of modern day ships operating off the coast of British Columbia. Most are likely unaware that these ships have been redesigned with safety in mind, that they are dual-piloted and guided by local captains when they come into port and depart under the watchful eye of multiple tethered tugboats.

Obviously no system is perfect or without risk, but we believe this system is safer than many others that we rely on every day.

Canadians should have a better appreciation for both sides of this discussion. I believe we have a responsibility to examine each of the market diversification options that are on the table at this time on the basis of its merits, with an informed evaluation of their risks and respectful of any regulatory review.

Better information will enable us to elevate the dialogue on energy issues in this country. We need a discourse that properly balances risk with the scope of the issue. Canadians need to appreciate that whether or not another foot of pipeline is ever laid in Canada, global suppliers will ensure that hydrocarbons are made available to satisfy that demand.

A CIBC report issued earlier this month stated that Canada lost $25 billion in 2012 due to oil price differentials. A barrel of oil from western Canada has the same greenhouse gas emission profile regardless of the price it fetches on the global market. In a time when governments at all levels are being asked to do more with less, leaving $25 billion on the table makes us all poorer.

● (1550)

It becomes easier to act in our own self-interest when we can point to the great efforts we are making to become one of the world's most responsible producers of energy. We have an opportunity to leverage our resource endowment and to properly invest the proceeds in initiatives that elevate our status as a nation. One need only look to the Norwegian sovereign wealth fund or to the work being done by Masdar in the United Arab Emirates for an appreciation of the benefits that can accrue to countries with well-articulated resource strategies.

We want Canada to make investments that properly leverage our resource endowment while respecting the environment. Smart climate policy helps our natural resource sectors to thrive. It encourages efficiency, it breeds competition, and it lends legitimacy to the pursuit of profit. It also expresses the will of the people, satisfies their need for social license to operate, and to grow. Just as our firms have a fiduciary responsibility to maximize profit, our leaders have an ethical responsibility to future generations.

Properly sited infrastructure can address the former and continuing to raise the bar in addressing climate change can address the latter.

Thank you.

● (1555)

The Chair: Thank you, Mr. Willis.

We go to our final witness for the day. By video conference from Stavanger, Norway, we have, as an individual, Mr. Rolf Wiborg, an engineer.

Go ahead please, Mr. Wiborg, with your presentation.

Mr. Rolf Wiborg (Engineer, As an Individual): Thank you, and good evening. For me it's actually the evening, but good afternoon to you in Ottawa.

Ladies and gentlemen, I appreciate this opportunity to try to repay some of my debt to Canadian society. The education given to me by the University of Alberta has proven really useful in my work here in Norway and, as already referred to, in creating Norwegian wealth, our pension fund abroad, as we call it these days. As a matter of fact, the Alberta heritage fund from the 1970s is the model.

I have read all the reports and some of the recommendations provided to the Alberta provincial government and the federal government in Ottawa, and to the committee. In my opinion, the information you have provided only strengthens the argument I made to the journalist who came from *Time* magazine and interviewed me in August, 2012.

Canada has the resources, as already mentioned by all the other witnesses. You have the natural wealth. You have the competent people. You should be a winner in the energy business in the coming years. The question in my mind remains with you and the provincial governments, that is, with your political leadership.

I think we have already heard that maybe the Canadian electorate could support politicians who would make the nation and the provinces work toward a common goal of improving the life of many Canadians, to provide jobs, as Mr. McGowan talked about, and to provide income, taxes, and recreate the Alberta dream that I lived in the seventies when I was a student from 1973 to 1975 in Edmonton.

I understand that you have the same problem in Canada as we in part have in Norway. There are Norwegians who look at the energy industry as the enemy, as the polluter. However, in Norway the majority know that it also provides the jobs and the income and the ability for a nation that used to be among the poorest in Europe to be among the richest in the world today. The problem I have is to see whether you can sell to the nation and the provinces and people the concept of again investing in your own country and own industries, or whether you will continue to let foreigners, including the Norwegian Statoil—the company that I as an individual in Norway participate in—invest in business in Canada and, as already mentioned by witnesses, take away fairly good profits, at least after an initial risk phase.

I hope you appreciate that I speak tonight as an individual, reflecting my love for Canada and Canadians. I even have family still in Canada. I sincerely believe, as already mentioned by other witnesses, that you should be able to get a better deal from your business partners, both nations—not least the United States of America south of the border—and the companies operating in Canada. However, that will require government employees and politicians who are willing to look into the business and understand it better, as you are trying to do tonight. You are regulating and you are taxing, but most oil-successful nations in the world in the energy business have done like Norway did: they're also investing. You had Petro-Canada but then you dismantled it.

● (1600)

Canada is an exporting nation. It's an OPEC type of nation. Why not apply that type of logic and thinking to your country as the rest of these countries have done? Mr. Mintz mentioned the need to diversify and get to the Asian market to improve your bargaining position. I totally support that. However, it requires you to go through British Columbia, which is not easy, from what I'm reading in the newspapers.

You also need to improve your relations and your negotiating position with the U.S.

Venezuela, with their Orinoco emulsion—their version of the tar sands bitumen—went ahead and invested in the refineries in the U.S. You could do the same.

There are more ways of diversifying other than building your own upgraders, although I agree with Mr. McGowan that you probably need to upgrade more. The question always is, how much diversification? This becomes a judgment of the market.

I believe today that people going to Alberta and investing in the tar sands, like Statoil did, are taking a political risk, which includes your system, the federal government and the provinces. It's also a risk on price.

The tar sands need about $95 to $100 a barrel to be profitable in most of its operations—at least the new ones, with having to pay back the capital. It's already been alluded to by the witnesses that the oil market could drop. The United States of America is definitely not interested in paying more than they have to, so you need to find a way out of that predicament.

Thank you.

The Chair: Thank you very much, Mr. Wiborg.

Thank you, on behalf of all the committee, for taking this time to be with us today—tonight there. We appreciate it very much.

We will now go to questions and comments from members, starting with a seven-minute round.

We have Mr. Trost, followed by Mr. Julian, and then Mr. Garneau.

Go ahead, please, Mr. Trost, for up to seven minutes.

Mr. Brad Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chair.

Thank you to all the witnesses.

Just for clarity's sake, I've heard a few witnesses like Mr. McGowan talk about how we need to have more upgraders, and maybe refineries, and so forth. I'm not quite sure of the mechanism that they're looking for to do it.

I'd like just a brief response from Mr. McGowan. To get more refineries built in Canada, what is a concrete policy step that your asking us to take? Are you asking for a crown corporation to build them? Are you asking for an export tax? What are you asking for specifically?

Unless we interfere in the market, from what we've heard there are currently not too many players who are willing to put billions of dollars at risk. What do we have to do? Do we have to mess with the market somehow to get this done? What is the specific concrete step you're asking for?

Mr. Gil McGowan: The short answer is that I think we need to take a page from Peter Lougheed's playbook.

Back in the 1970s, when he formed the first Progressive Conservative government in Alberta, he was faced with a very similar situation that we're faced with today, but with a different resource. At the time it was natural gas and it was being exported in raw form. He wanted to add value. In order to do that he used a mix of regulation and direct public investment, to establish public-private partnerships that led to....

So the short answer is, yes, the private sector has been given an opportunity to do what Canadians want, and which I would argue they need, and it has failed.

We need public action, we need a crown corporation, and we need public investment. On that subject, make no mistake, we're already investing in this industry because with the low royalty, we're paying for existing—

• (1605)

Mr. Brad Trost: I have this right, then, that crown corporations and regulatory...?

Mr. Peter Julian (Burnaby—New Westminster, NDP): A point of order.

The Chair: Mr. Julian has a point of order.

Mr. Peter Julian: He's just answering the question.

I would appreciate it, Mr. Chair, if you could just allow our witnesses to respond to the questions they've been asked.

The Chair: Mr. Julian, in my judgment, Mr. McGowan had completed the answer to Mr. Trost's question, and Mr. Trost was asking follow-up questions.

Go ahead, please, Mr. Trost.

Mr. Brad Trost: I was just summarizing your two basic points, sir.

Basically, you're asking for regulatory requirements for a certain percentage, etc., of upgrading, and a crown corporation to support the development of refinery upgrading—

Mr. Gil McGowan: Exactly. That's what governments in this country have done to great effect in the past, and what governments and other oil producing industries have done.

The last point I was trying to make is that in a sense we are already spending, in the form of low royalties, a lot of money to develop the oil industry. The penny on the dollar royalty from Alberta basically means that all this oil sands development is paid for by the public in the form of foregone royalty revenue. We're already paying for it. I say we should own it.

Mr. Brad Trost: Mr. Mintz, I'm going to guess that you may not quite totally agree with Mr. McGowan's remarks just watching the odd thing and having seen you before.

For a different viewpoint, could you perhaps respond why you might not agree, if I'm guessing correctly, with Mr. McGowan's analysis or solution?

Dr. Jack Mintz: First, let me say I wish I could agree with Mr. McGowan, because it would be great to have more jobs in Canada. We have to remember that as you do more in Canada, you're actually creating an even bigger energy industry that's absorbing more resources in the Canadian economy. Unfortunately, I would totally disagree with a lot of the information provided or the understanding provided of how the market is currently operating.

First of all, we have to remember that upgrading can make sense, especially with existing refineries. That's because the cost of doing the upgrading is much less in those cases. For example, there is a potential increase in upgrading if we build the eastern pipeline, where you could actually do more with the Irving plant in New Brunswick. Certainly, there's an argument for more western Canadian feedstock to go to Quebec refineries as well as Ontario refineries. Even the Edmonton refineries could take some more capacity, and there is some potential increase in upgrading.

The problem is that what we're really talking about is building new upgraders, which could be very expensive. The problem is that in the United States—this is where I don't agree at all with Gil's comments—we've had a tremendous change in refining capacity utilization in the past 20 years. If you go back to the early nineties, capacity utilization in the refineries in the United States was roughly 70% just after the recession. Then it climbed in 2005 and 2006 to over 95%. There was a lot of tightness in the market. That's the reason oil prices partly went through the roof in those years.

What happened after the recession in 2009 is that there has also been a tremendous shift in the market at the same time. The view is that we may actually have seen the maximum amount of refining capacity we will need for some time. Now utilization is down to 70%. It's actually a lot cheaper to do the upgrading where you do have excess capacity. That's the reason why shipping bitumen down to the United States to do the upgrading there makes sense compared to doing it here.

Let me just finish with one very quick point. There's one upgrading project in Alberta that's been going ahead. That's a northwest upgrader. The market risk, because the margins are not expected to be that high in the future, is being absorbed by the Alberta government. There's a toll charge that's being paid to the operator.

I don't know, but maybe, Gil, you would like to put money into an upgrader in Alberta, putting it at your own risk. But I think that's an issue that has to be dealt with, because right now there's no profitability in the future for market [*Inaudible—Editor*] upgrading.

Mr. Brad Trost: Could I then ask, what would be the follow-on effect of a regulatory requirement that a certain percentage of oil be upgraded in Canada, as Mr. McGowan says? He seems to think it would be positive and he has some good arguments for that.

What would be the effect on production and other elements of the pipeline if there were a regulatory requirement that the industry in total or every producer has a certain percentage upgraded in Canada: 72%, 65%, whatever?

• (1610)

The Chair: A very brief response, please, Mr. Mintz.

Dr. Jack Mintz: I'm not sure which level of government would be putting in that regulation. I would assume it would have to be the Alberta government, or whatever, because there's provincial ownership of the resource. You could potentially drive out investment in oil sands altogether, because you may not be able to make any money.

The Chair: Thank you, Mr. Trost.

Mr. Julian, for seven minutes.

Mr. Peter Julian: Thank you very much, Mr. Chair.

Thanks, witnesses. This is very interesting information.

I'd like to start with you, Mr. McGowan. I know that you are an extremely proud Albertan. I know from all the door-knocking I've done in Calgary and Camrose and Red Deer and Edmonton that Albertans are coming around to the idea that resources can't just be frittered away. You raised the important point about Northern Gateway and Keystone. I just wanted to come back to those figures. Here we have a government that has interfered with the market. They've gutted the environmental assessment process and gutted the public consultation process around pipelines with a strong reaction from Canadians.

So they interfered with the market to provide an economic incentive for export. You've given us the figures: 17 full-time on-site jobs for Keystone, 104 for Northern Gateway—they raised that from 78 initially—as opposed to 17,000 for Keystone if the same product were upgraded in Canada, and 26,000 for Northern Gateway. So we're talking about 43,000 jobs as opposed to 121. I think most Canadians get that.

The issue is if the government is interfering with the marketplace, trying to gut everything that Canadians hold dear to try to push particularly Northern Gateway through over the objections of British Columbians, and thereby threatening thousands of jobs that depend on a clean environment, what would the forward-thinking value-added policy framework look like in 2015 when there's a new government? What should that government do to put in place something value-added so instead of frittering away those thousands of jobs, we're actually having those jobs here in Canada and reducing our dependence on foreign supplies of oil?

Mr. Gil McGowan: There are two things that I think have to be realized before you get into policy. The first is that the state of the oil sands as it is right now is actually a result of direct public-policy decisions made primarily by the Alberta government. When people use language like "interfering with the market" or those kinds of negative connotations, the reality is that the oil sands are the product of public policy. In the Lougheed days, it was what I would describe as progressive public policy—that's our role for government—but since the Klein days, it's basically been public policy that gives huge subsidies to the industry in the form of low royalties to encourage investment.

It's important to understand that public policy can be made; it can be unmade; it can be remade. To say, "let the market decide" is a fantasy, because the market hasn't been making decisions about how this industry is developed. So there is a role for government to play in making public policy. The problem is making the best public policy.

The next thing I think people have to realize before coming to a public policy is that there's a difference between the public interest and private interest. In that regard, I take issue with one very small word that was used over and over again by Dr. Mintz, and that word is "we". He says we have refining capacity in the States. We have unused refining capacity in the States. It's not we. It's private multinational oil companies based largely in the United States that have unused capacity.

I agree with Dr. Mintz when he says that it makes sense for companies like Exxon or even Sinopec overseas to get access to bitumen preferably at the cheapest possible price so that they can buy low and sell high—buy the cheap oil and turn it into a high-value product. That makes all sorts of sense for them. But just because it makes sense for them as private developers, does not mean that it makes sense for us as the owners of the resource. So this is a clear example of where public interest and private interest diverge.

Mr. Peter Julian: I have a quick follow-up question. You led us through what happens over the next 12 years. They go from 65% upgraded down to 23% upgraded at the same time the oil sands expand from 1.5 million to five million barrels. Now obviously what we're talking about is frittering away, giving away, again, tens of thousands of jobs in the way that only a spendthrift Conservative Government could. They gave away half a million manufacturing jobs. It seems to be their raison d'etre.

So how many jobs do we lose over that 12-year period in Alberta as a result of those wrong-headed policies?

● (1615)

Mr. Gil McGowan: They're all estimates, but they're high numbers.

I find it interesting that when provincial or federal Conservatives have conversations, the conversations are different on either side of the border. When they go south of the border and they're talking to American audiences, whom they want to approve pipelines like the Keystone XL, they talk about the tens of thousands of jobs in upgrading and refining that will be created once our raw bitumen is provided to them as feedstock. Then when they come north of the border, they don't talk about those jobs that are going to be provided to the Americans instead of Canadians. They say we'll create other jobs.

On the subject of jobs, I think this is really important. We heard a lot of big numbers from Dr. Mintz. He was quoting two studies in particular, done by his colleagues Dr. Moore and Dr. Mansell, both from the U of C. They were expert witnesses at the NEB hearings on the Northern Gateway pipeline. We were there as intervenors. I watched as both of those professors had their reports torn to shreds in front of the National Energy Board.

Both reports had numbers about job creation that were based on one factor only, and that was the presumed uplift in price that would result from gaining access to the Asian market. Under cross-examination by expert witnesses, these guys were torn apart. They were forced to admit that there probably will be no change in price at all as a result of access.

The Alberta government's expert witness, working for Wood Mackenzie, basically said that the discount that resulted from filling up the coking refineries and taking that capacity and spilling over to the cracking refineries...the pipeline would only take away that excess capacity for one year. There would be one year, instead of 30 years—which all of their estimates of huge job creation were based on. There would be only one year in which the Northern Gateway pipeline, by accessing Asian markets, would result in prices going up slightly, and then they would go back down again.

Frankly, to throw those numbers around is a little disingenuous after they've been torn apart by experts at the NEB.

Mr. Peter Julian: Thanks, Mr. McGowan. Many of the studies have shown that those figures are fantasies. Oil company lobbyists, rather than dealing with the hard economics, as we've seen, whether it's thousands of jobs—

Mr. Gil McGowan: Even the energy industry experts themselves, from the oil companies, admitted under cross-examination that they didn't expect prices to go up by accessing the Asian market, full stop.

The Chair: Thank you, Mr. Julian.

We go now to Mr. Garneau for up to seven minutes. Go ahead, please, sir.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

I had the pleasure of being on the board of directors of an oil sands company for a couple of years, from 2006 to 2008. Back then everybody wanted to build upgraders. It seems to have changed quite a bit in the last five years.

If I understand the arguments that are presented—and here I'll cite Dr. Mintz—it seems at the moment that companies like Exxon that are in the oil sands want to use unused capacity in Houston to do the upgrading to synthetic oil, and then move on to even more refined products. You brought up Sinopec. China would like to use its capacity there.

Mr. McGowan, are you suggesting that if it isn't the private companies that build these upgraders in Canada because it doesn't make sense for them, and that if somehow governments got involved in building them, there would be a ready market for refined products coming out of these upgraders?

Mr. Gil McGowan: Yes.

My point is that if the government doesn't get involved, it won't get done. The private sector has been given ample opportunity to invest in upgrading and refining, which is what Albertans want, which is what Canadians want, which will create jobs and revenue. The issues are not—

Mr. Marc Garneau: Will the market be there, or will our export markets say they don't need this?

Mr. Gil McGowan: Let me be clear about something. We at the Alberta Federation of Labour and the broader labour movement are not opposed to diversifying markets. We're not opposed to selling to Asia; we're just saying that we're trying to sell the wrong product.

Also, the first thing we should be doing—and I think I agree with several of the other panellists here—is that instead of looking to the Far East for new markets, we should first look to our own east. As it stands right now, 85% of the oil used in the Maritimes comes from Saudi Arabia and Venezuela, countries that are charging what we call Brent prices, which are 20% higher. There's an opportunity to replace those higher costs paid by Canadian consumers in the east with lower cost Canadian oil. It would be a win-win situation. That's the first market.

Keep in mind that's a 750,000 barrel per day market just in the Maritimes. If you include Quebec and Ontario, these are significant markets. We should look at market replacement in Canada, and not close the door on exports, but as I say, we should be looking at exporting the right product.

● (1620)

Mr. Marc Garneau: That leads a little bit into my second question.

I'm in favour of generating wealth from the oil sands as long as we do it in a responsible way. Now, you said that currently we're producing about a million and a half barrels a day. It's going to be three million pretty soon. There are commitments and money being invested to get up to five million barrels in the medium term, possibly before 2020.

At the same time, the current government has given itself an objective of reducing greenhouse gases by 17% by 2020, below 2005 levels.

Is there a problematic intersection that could be reached in the sense that once the machine is moving towards developing this capacity, and given the fact that the sectoral approach that's been taken by the government will be very sensitive to the oil and gas sector, because there is a limited amount of manoeuvring room with the other sectors, we could say, “Hey, we're not going to meet those targets”, if we are producing more than a certain number of millions of barrels a day?

I'd like to hear from Dr. Mintz on that first, and then from Mr. McGowan.

Then I'd like to hear from Norway on whether they've had to balance their environmental objectives with their production objectives. I'd like to know whether they've ever reached a point where they've had to say, “Hey, we'd better slow down”, or if they've always been able to stay ahead of the curve.

The Chair: Dr. Mintz, go ahead, please.

Dr. Jack Mintz: Actually, I wasn't sure whether you were going to ask me or Gil that question.

At any rate, just on that, I think we have to first ask what is the appropriate cost of producing when we get to bitumen and upgrading, then including the social costs, which would include environmental costs.

The difficulty—and this is where I strongly disagree with Gil—is that the first element is getting to the heavy oil and the cost of producing heavy oil. There is an upgrading cost that will then add to the cost of oil. The problem is that we may want to sell refined product abroad, but there may not be a market if it's too expensive, because the costs are higher in Canada.

That goes back to the issue of what's called comparative advantage. The comparative advantage may be that sometimes you're better off to actually produce the bitumen as opposed to going to a higher level because of the additional costs that would be incurred here. Comparative advantage means better trade and a lot of the gains to trade. I'm sure one could go into that.

In terms of the environmental costs, I've been a strong proponent of these over the years, that it's appropriate to price these environmental costs, and that it would be a cost that would be included. The difficulty, of course, is that if your competitors don't price that, then that creates an issue that has to be dealt with, which is a constraint. But if everybody were appropriately costing that internationally, then that wouldn't necessarily impact on the choice between upgrading or not upgrading, etc., because you've already done that appropriate social costing in the price of oil.

In my view, you do raise a very important issue. That is, if we decide to do more upgrading in Canada, we will be counted to have more GHG emissions. Of course, even though from a world perspective it doesn't matter—from a world point of view, it doesn't matter whether GHG emissions occur in the United States or Asia or Canada—when we start getting into the politics of it, of course we're going to saying that we can't hit our targets as quickly, which means we're going to have to do other things in order to make up and get to the targets we want to get to.

The Chair: Mr. Garneau, you have only 15 seconds left of your time. We can stretch that a little bit, but would you like to go to Mr. Wiborg or to Mr. McGowan?

Mr. Marc Garneau: I'd like to hear from Mr. Wiborg on the balancing.

Thank you.

● (1625)

The Chair: Mr. Wiborg, go ahead, please.

Mr. Rolf Wiborg: Thank you. I'll try to be brief.

On the upgrading, I'll just remind the committee that the Venezuelans also need to upgrade the Orinoco emulsion before they send it to specialized refineries. The big cost is in the specialized refineries. You are able to refine some on the east coast.

I think looking inside Canada, as Mr. McGowan mentioned, is very important. But you need, of course, a lot of provinces and to change the use of present pipelines.

On Norway, in *The Tyee* articles you will find reference to the 10 oil commandments—almost biblical. We had to look at the Norwegian needs first. It so happened that the Ekofisk field, the first one we found, produced a lot more oil than Norway's 3.5 million people used.

We built refineries inside Norway, and Statoil was used to do that. We didn't have to import product any more; we could actually export. It was costly in the beginning, but it has paid off today. Statoil expanded and bought refineries in Sweden and Denmark, and gasoline stations in the Baltic countries. They have now sold out of the gasoline stations. We are no longer in the petrol market with Statoil; other people have taken that over.

But we have balanced our activity in oil with the jobs inside Norway. We have created an industry, just like Canada did, which actually supplies the world market. A lot of Canadian businesses in Alberta are excellent exporters of excellent equipment. Some of it also goes to Norway.

You need to look at the whole aspect of how you link business to the electorate, to the voter. That makes them part of the business. Every Norwegian knows we own part of Statoil, and they own 100% of the state's direct financial interest in a company that now is called Petoro. That makes a whole difference in how we discuss things in Norway and how we actually regulate.

The Chair: Thank you very much.

Thank you, Mr. Garneau.

We go now to the five-minute rounds, starting with Ms. Crockatt, then to Mr. Allen, and Mr. Nicholls.

Go ahead, please, Ms. Crockatt, for up to five minutes.

Ms. Joan Crockatt (Calgary Centre, CPC): Thank you very much.

We heard from Chris Smillie from the AFL-CIO just recently that the jobs are on both ends of the pipeline and that the refining end is the very low margin part of it. He's not worried about the jobs being in refining, at all. He's says basically that we should go for the highest margin areas, and that's where the most activity is going to be.

Dr. Mintz, Canadians are starting to understand the potential of our energy industry, and it's in the billions of dollars. It's sometimes hard to get our heads around those numbers.

I'm wondering if they understand that there are risks in our not moving ahead, and could you talk about the risks. Are we losing money right now because of lack of market access?

Dr. Jack Mintz: First of all, there are risks.

By the way, I want to comment on something that Mr. McGowan said, which I think is not quite correct. I believe Michael Moore was not at the NEB hearings. In fact, when Michael Moore did his paper, he worked with Stillwater Associates and Los Alamos National Laboratory, which are very distinguished organizations in the United States. We, however, also go through a very rigorous anonymous refereeing process, and the referees thought very highly of the paper.

I won't comment any further, but certainly the quality is there. We can have that kind of debate. As to whether Mr. Mansell got torn apart, all I know is that there was a very bizarre argument made by one expert witness who was trying to tear it apart. I won't go into that in detail, but we'll hear from the NEB what they think of the ultimate arguments.

With respect to the risks, they are there. One of the papers I mentioned was a recent one we put out by Michael Moore showing that Asian coal capacity is expanding. There has been a huge expansion in that capacity and planned capacity, and Mr. Moore's comment, based on work he did with Stillwater Associates, was that if we are slow in developing exports to Asia, we could eventually miss the market. There will be other suppliers that will come in.

With respect to the North American market, we don't export right now to California, which is one of the other advantages of going west. There are somewhat higher prices associated with PADD 5 in California compared with prices on the Gulf Coast. Going down south, we have an opportunity, but there are risks there. Tight oil is expanding tremendously in the United States. This doesn't mean it will displace all imports, but there is a fair amount of oil that could be brought in from offshore. If we have changes in Venezuela, there could be a good supply that will come in from there.

If we take our time in dealing with these issues, we risk missing markets. You can see the squeezing of the differences between the Brent price and the West Texas Intermediate price if you look at the recent numbers. Part of that is because a number of issues have been dealt with, including stoppages in the Enbridge line and the reversal of the Seaway Pipeline in the south. But we're going to have new pipelines going between Cushing and the Gulf Coast, and we're going to see those differences disappear quite a bit. This is why the refineries don't see their future as being very good. You're not going to lay down billions of dollars in new refining capacity when you could end up with quite low margins in the future. That has been one of the main concerns.

● (1630)

Ms. Joan Crockatt: I'd like to address the international market benefits to Canada. You talked about the geopolitical context, and I'm wondering what benefits to Canada there might be for those who are interested in environmental benefits. What benefits might there be on the geopolitical side of the international market access?

Dr. Jack Mintz: I'm not sure. There are different environmental issues. Some apply much more at a regional or local level, things like SOx and NOx, which affect the population in the area. That is one type of environmental issue that we tend to forget about because of the focus we have had on climate change in the last number of years.

Ms. Joan Crockatt: Could we affect world climate change by helping the rest of the world get our resources?

Dr. Jack Mintz: No, climate change depends on a lot of things that are being done. Actually, this energy study that recently came out in the United States is fascinating if people look at the numbers. Between 2005 and 2011—these are the U.S. numbers—Canada has actually reduced greenhouse gas emissions proportionately more than the United States or Europe, but not as much as the United Kingdom and Germany. That was actually quite surprising.

One of the interesting things is how much time has gone by during that six-year period, which is significantly related to coal production. It just swamps all the decreases that have been going on in the western world. China has had a huge effect on this trend all by itself, never mind adding in other countries, like India, that have also had large increases in emissions. The climate change issue is very much an international one, and the real action is going to have to take place in emerging countries if we are going to have significant reductions in worldwide emissions.

The Chair: Thank you, Ms. Crockatt.

Mr. Allen, you have up to five minutes. Go ahead, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Mr. Chair, and thank you to our witnesses for being here.

We did get at least a little bit of an agreement on the usefulness of a pipeline going west to east, and the refining capacity in Atlantic Canada, particularly Irving and Montreal, and the displacement of offshore oil that's being brought in there.

My question is for Mr. McGowan and Mr. Mintz. Do you both believe that this so-called spread would actually...? I guess the higher-cost oil we're currently getting in Atlantic Canada would be offset as we start to gravitate toward world prices. Is it just as much an issue of security of supply, as it would be of price, for Atlantic Canadians? I ask because I'm not convinced that Atlantic Canadians would see lower prices in the long term.

● (1635)

The Chair: Mr. Mintz.

Mr. Gil McGowan: Who would you like to take a crack at this first?

Dr. Jack Mintz: You can get started.

The Chair: Go ahead, Mr. McGowan.

Mr. Gil McGowan: I think you're right that we can't presume that the spread between Brent prices and WTI will remain. If you look at the last 20 years, it's only relatively recently that they've diverged. In fact, they've been converging again, so there's no guarantee that there'll be a big price savings for consumers in eastern Canada. Having said that, I think it's still worth doing because of Canadian energy security issues, and also for Canadian-based job creation.

The one thing I would add is that both the refinery in Montreal and in New Brunswick are cracking refineries, so from the Alberta Federation of Labour's perspective, we'd still like to send synthetic crude down the pipes eastward, as opposed to raw bitumen. That would have the added benefit of requiring less pipeline space, because in order to ship bitumen you have to dilute it with 30% diluent, which we're increasingly having to import from Saudi Arabia and other world markets. By focusing on raw exports we're in this perverse situation of becoming more dependent on imports of condensate from places like Saudi Arabia.

Mr. Mike Allen: Mr. Mintz.

Dr. Jack Mintz: I would agree on the Atlantic thing. The consumers may not get that much of a break once you end up.... That's not the way pricing operates anyway. Pricing operates based on import prices coming in, and the retail price is set by the import price. You will get a squeezing of that, once we get more of this pipeline capacity being built in the United States itself. I think the Brent price and the WTI prices are going to converge. The last time I looked they were only $10 apart instead of $20, so there's been quite a convergence even in the past couple of months.

The other part of it is that maybe Mr. McGowan would like to have even more jobs in Alberta. I would like, from an economics point of view, to place jobs according to where the greatest value-added is created in the country. The thing about existing refineries is that they can actually do upgrading more cheaply than those that are being built anew.

That's why no investor was willing to take on something like the North West upgrader unless they got a guarantee for market risk. They know that those margins are going to get squeezed on the refining side because the heavy oil price is going to go up and those margins are going to get squeezed as a result. It would be great if Quebec refineries could make some money and create some jobs in Quebec. I think that would be good for the Canadian economy. I think that's exactly the way the market should operate.

Mr. Mike Allen: Thank you.

Mr. Willis, I want to bring you in here.

One of the things the chamber has talked about is the appropriate levers on the west to east pipeline, and that the federal government should facilitate that pipeline. What are some of the key things you see as the federal government's role in that, other than on the regulatory side?

Mr. Scott Willis: I think there's certainly a regulatory role, but I believe there's also a role to act as convenor. The case has been made that regardless of what we're exporting, it is in Canada's national interest to export to more than only one country. If there's a role for the federal government to act as convenor, that could be through a regulatory process; it could be by banging heads together. I'm not sure what the most appropriate form would be.

I've certainly seen and appreciated some of the public service announcements that have come through the EcoAction program. As far as raising awareness, I think that CAPP and CEP are doing a pretty good job of trying to educate Canadians about the importance of the oil and gas sector, bringing things to their attention that they may not realize.

We represent Canadians from coast, to coast, to coast. I think we can all agree that provinces tend to act in their provincial interests and don't always consider what would be in the national interest. It would be nice to be able to point to things that we do because we're Canada, not because we're from Alberta, Ontario, or Quebec.

● (1640)

The Chair: Thank you.

Thank you, Mr. Allen.

We go now to Mr. Nicholls for up to five minutes.

Go ahead, please.

Mr. Jamie Nicholls (Vaudreuil-Soulanges, NDP): Thank you, Mr. Chair, and thank you, Mr. McGowan.

In terms of the social licence, people in my riding would rather see synthetic crude going through the 9B pipeline than dilbit. So I thank you for your comments on that.

Dr. Mintz, you've said publicly before that Norway is the poster child for good governance, and we certainly agree over here. The Arbeiderpartiet is a labour party like the NDP. It's a social democratic government and has ruled for a long time in Norway, so we can learn a lot from Norway.

Norway was the third largest exporter of energy, and coupled with these massive exports of energy it has a climate policy that's quite interesting. When they implemented this climate policy, they tripled the funding for R and D through a government agency.

So my questions are actually for Mr. Wiborg about the sovereign wealth fund. Am I correct to understand that the sovereign wealth fund is the world's largest wealth generating fund? Is this correct?

Mr. Rolf Wiborg: No, not really. It's getting there fairly quickly, but I think we're number three at the moment, if you go and look at some of them.

Mr. Jamie Nicholls: How much is in that fund presently?

Mr. Rolf Wiborg: More than 4,000 billion kroner.

Mr. Jamie Nicholls: Wow! What does that translate to in Canadian dollars?

Mr. Rolf Wiborg: Oh, it would be a little less than $1,000 billion Canadian.

Mr. Jamie Nicholls: Wow, as opposed to the $16 billion that the Alberta heritage fund has accumulated over a similar time. Don't you agree, Mr. Wiborg, that if Norway frittered away the wealth as Canada has with its natural resources, Norwegians would be up in arms with their government about giving their wealth away to foreign nations? Wouldn't Norwegians be angry?

Mr. Rolf Wiborg: Norwegians wouldn't allow any type of resource production if we didn't have the tough conditions we have. Actually, we have gone around the world teaching other nations to do the same. If you go to China, you will need to have the same type of policy as an Exxon or a Shell have. The same type of policies that Norway created in the seventies are run by the Chinese if you come in as a foreign company. That's because Statoil went to Beijing in 1976 and told them how to do it. The Russians are doing the same. Of course, they're doing it the Putin way right now.

Some hon. members: Oh, oh!

Mr. Jamie Nicholls: I can tell you that a social democratic government in Canada would take the lessons seriously that Norway has to offer and would protect our natural resources from foreign encroachment.

I'd like you to touch upon Enova's role in innovation in Norway. This is the agency that Norway created in 2001 to deal with the climate policy. Could you tell us a bit about Enova.

The Chair: Mr. Nicholls, could you keep your questions on the topic we're here to discuss, which is diversification of markets. Just connect them somehow—you can do that, I'm sure. Go ahead.

Mr. Jamie Nicholls: I've asked the question about Enova, which, I believe, drives innovation and probably diversification in the energy sector, looking for a path forward for Norway to deal with climate targets.

Mr. Rolf Wiborg: It's one of the many creations, but the most important one is actually part of the 10 oil commandments: thou shall not produce oil and pollute and ruin the nation and the world for future generations.

We have a CO2 policy and a CO2 tax that applies to all offshore production, because we only have production offshore. That tax goes towards some of the things you are alluding to, but there are a lot of other things too. This is part of former Premier Gro Harlem Brundtland's legacy, if some of you remember the Rio de Janeiro declaration—and that's sustainable development.

However, by producing oil and gas we are increasing somewhat our pollution in Norway. But we are exporting our gas to Europe and they are reducing their use of coal, which is a lot more efficient. So we still develop gas fields right now at a questionable return to the nation to participate in the European effort to reduce pollution. That means our fishing lakes in the mountains now have trout again. That used to be impossible up there, because they got all the coal, all the CO2, all the SO2 from Europe.

So I think most Norwegians are pretty happy about playing that role, and at the same time as oil and gas prices have been increasing, as they normally have, albeit not always, we have also been making some money from being the good guy. Canadians can do the same.

● (1645)

The Chair: Thank you, and thank you, Mr. Nichols.

Some hon. members: Hear, hear!

The Chair: We now continue the five-minute with Mr. Anderson, Monsieur Gravelle, and then Mr. Calkins.

Go ahead, please, Mr. Anderson, for up to five minutes.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

Those of us from Saskatchewan are a little bit more sensitive, perhaps, to the rhetoric about socialist democratic governments. We have already experienced that, and I think the only thing—or not the only thing, but one of the main things—that really helped us in Saskatchewan was when the Alberta government decided to play with their royalty regime. That was really what kicked off, in my area anyway, the development of the oil and gas industry, and we're still benefiting from that.

Government interference can certain affect the market, and for those of us in Saskatchewan, it's been a very positive thing with the Alberta government over the last few years.

Mr. Mintz, I want to ask you, and Mr. Willis, as well, does every kernel of grain need to be made into bread in order for the producers to be able to make some money and do a good job?

Dr. Jack Mintz: No. In fact, that's really the lessons of economics. It's Economics 101 trade theory, which goes back to my comment about comparative advantage, that you can do some things really well, more cheaply than anybody else. You sell on the international market, you import goods and services that way, but if you try to do things where you're trying to go up the value chain altogether, you can actually end up losing money.

In fact, it's not all about jobs. When you measure value-added, you're talking both about returns on labour and on capital. If you have negative returns on capital, you may not be going up the value-added chain at all; you may be going down, in that sense.

We've had a lot of disasters in public policy in the past number of years that we should not forget about, whether it was building cucumber plants in Newfoundland, a car company in Nova Scotia…. I can go through a host of diversification projects in Alberta that ended up flubbing, costing the government billions of dollars in revenue ultimately and being a major loss to taxpayers.

The other thing is that you're taking resources that are being used for more productive uses and you're putting them into things with less productive uses. That actually has a very negative impact on the economy. What happens is that, sure, you may move up the value chain for a particular product, but if you're getting fewer profits, less output associated with it, or less production or less productivity associated with it, because you're drawing it away from other things that are producing better, then you actually have a negative effect on or loss to the economy.

That's the lesson of economics. That's why this whole focus that we've got to move up the value-added chain all the time has been dismissed over the years by just about every credible organization, including the World Bank and the IMF and many others.

Mr. Gil McGowan: What about the fragmenting of—

The Chair: Go ahead, Mr. McGowan.

Mr. David Anderson: The only ones who seem to be able to handle the ongoing negative return on capital are governments with access to taxpayers' money.

But, Mr. Willis, I'm interested in your response to that question as well.

The Chair: Mr. Willis, go ahead.

Mr. Scott Willis: To be completely honest, I think Gil might have a more interesting response than I do.

The chamber certainly believes that there are options that would be in Canada's best interest, both in terms of market diversification and product diversification, whether that's moving some up the value chain or simply moving it across provincial borders and getting to tidewater. Again, I think our biggest problem is that we tend to think very regionally and provincially.

Mr. David Anderson: My question for you, then, is a little bit different.

On the development of pipelines, do you see that as an either/or prospect, that if we develop, then we lose jobs? Or do you see that it's possible for jobs to be developed on both sides of the border, as we develop pipelines and move more product to foreign markets?

I'll ask Dr. Mintz to respond to that as well.

Is it a case where, if we develop our pipelines, we lose jobs because somebody else is gaining jobs?

● (1650)

Mr. Scott Willis: I certainly don't think so, no.

Mr. David Anderson: We've heard that from our colleagues across the way, and others as well.

Mr. Scott Willis: In the interest of brevity, no, I don't think so.

Mr. David Anderson: Okay.

Dr. Mintz, would you like to comment?

Dr. Jack Mintz: No, it goes back to proper utilization of resources and back to Economics 101. This is why the markets end up doing a pretty good job in sorting these decisions out, as you end up putting the resources into the most productive uses. If we're going to build pipelines, obviously, the more energy we produce, and to me this is not.... If we had a world without regulations, if we didn't have the United States having to give a foreign permit, Keystone XL would have been built already or certainly would be on its way and creating a lot more income in Canada.

Are there things we may try to do in order to move up the value chain? Yes, you could try to do it, but you have to remember that there's a cost to doing that, an opportunity cost of using resources to do that, which could actually have negative consequence for the economy overall.

The Chair: Thank you, Mr. Anderson. Your time is up.

Mr. Gil McGowan: Do you only ask questions that jibe with your ideological point of view?

The Chair: Excuse me.

We go to Mr. Gravelle, for up to five minutes.

Go ahead, please.

Mr. Claude Gravelle (Nickel Belt, NDP): Welcome to the real world.

I have a quick question for Mr. Mintz. You answered Mr. Anderson's question with a simple no, so I'd like you to answer my question with a simple yes or no.

If we were to use Canadian grain and make Canadian bread, would we create Canadian jobs? Yes or no?

Dr. Jack Mintz: I don't know.

I'm not sure what you're saying.

No. I mean, the answer is—

Mr. Claude Gravelle: That's okay, never mind.

Dr. Jack Mintz: No, I mean it's kind of a.... I'm not going to say it's a silly point, but anyway...

Mr. Claude Gravelle: It's okay, I only have five minutes. Never mind. I wanted a yes or no answer.

Mr. McGowan, you referred to a lot of numbers and also to freedom of information documents.

Can you give me a bit of information on the freedom of information documents? Where were they from, and who got them?

Mr. Gil McGowan: The documents in question were produced by something called the hydrocarbon upgrading task force, a task force established by the Alberta provincial government to look at the viability of moving up the value ladder. Their own experts basically came to the conclusion that it made all sorts of sense, and those documents were suppressed and not released.

Mr. Claude Gravelle: So those documents were produced for the Alberta government—

Mr. Gil McGowan: Yes.

Mr. Claude Gravelle: —and the company that approves of these documents, what did you call them?

Mr. Gil McGowan: One of them was Wood Mackenzie, which is a—

Mr. Claude Gravelle: Is that a left-wing organization?

Mr. Gil McGowan: No, it's a major energy consultancy based in Houston.

Mr. Claude Gravelle: Okay, so it's a right-wing organization.

All right, thank you.

Mr. Rolf, I'd like to ask you a question. I want to quote Mr. Willis, and I'm going to paraphrase because I'm not sure I got the whole line correctly. He said something like, “We don't know what it means to be an energy power”. I read *The Tyee* article that you wrote, so can you comment on not knowing what an energy power means?

The Chair: Mr. Wiborg, go ahead, please.

Mr. Rolf Wiborg: I think I can, and my initial remark actually addressed that.

Canada, in my opinion, is like Norway: you will be, for hundreds of years, an exporting type of nation. That means you are an OPEC country, but you run the policy like you are an importing country.

I want to correct one thing for the committee. It sounds like you have the impression that it's a social democratic government that runs this policy in Norway. We are run exactly the same and the conservatives are in government, which we have proven several times since the early seventies. This makes sense to Norwegians, and if you want to get elected as a Norwegian politician, you'd better make sense to the Norwegian voter.

We create jobs; we take the wealth home. We invest in Canada in the tar sands when that makes sense, which is what Statoil has been doing over the last years. We try to do a good job in Canada, and do it in an environmentally friendly way. It's difficult; it costs money. We have it.

The key, in my opinion, in *The Tyee* article and everything I've learned since I learned to love Canada, is why doesn't Canada invest in itself, in Canadians?

When I lived there some [*Inaudible—Editor*] the people invested in the Caribbean, and the U.S. came up and invested. Now, when you run an economy in the interests of Washington, D.C., well, what do you expect?

Look at the OPEC type of countries and what they do, and divest. Get yourself a negotiating position and follow up on it. But you need to put people into the business, so you understand where the margins are going and who is taxing what.

The way you're living off royalties and licence fees, that is very hard, because you have to change your policy every time prices change in the world market. If you live in it as an investor, a co-investor, a co-risk taker, then you can keep a positive attitude and the businesses will stay with you. The oil companies will complain. ExxonMobil—back then it was called Esso Production—said that it would leave Norway when we increased the taxes. Our minister at the time looked around the table and said, “Nobody has left the room, so we probably didn't increase the taxes enough”. That's a story for you.

● (1655)

Mr. Claude Gravelle: Thank you.

[*Translation*]

The Chair: Thank you, Mr. Gravelle.

[*English*]

We now go to Mr. Calkins, followed by Monsieur Choquette and Mr. Leef.

Go ahead, Mr. Calkins, for up to five minutes.

Mr. Blaine Calkins (Wetaskiwin, CPC): Thank you, Mr. Chair.

Mr. Wiborg, I have a quick question for you about how the state of Norway is currently configured. Who owns the natural resources, the hydrocarbon resources, in the jurisdiction of Norway?

Mr. Rolf Wiborg: Every Norwegian born or due to be does, and then we—

Mr. Blaine Calkins: Maybe you're not understanding my question. My question is, from a government jurisdictional perspective, who owns it? When you say “every Norwegian”, you mean the Government of Norway on behalf of the people of Norway. Is that correct?

Mr. Rolf Wiborg: The Government of Norway owns it and through it every Norwegian voting and every future Norwegian owns the resource.

Mr. Blaine Calkins: Thanks, Mr. Wiborg. That's the question I had.

We heard from Mr. Nicholls earlier today that Canada should take lessons from Norway about how to do this. From that perspective, in Norway the jurisdiction is the federal Norwegian government, which owns the resource on behalf of the people of Norway.

Mr. Mintz and Mr. Willis, I'd be interested in how that would play out here, given the fact that we've had some attempts at nationalizing energy in Canada and have seen what the result was economically.

Dr. Jack Mintz: Actually, when I first heard the question I was wondering whether I was in the right building—whether I was in the Alberta legislature at this point—because this is a provincial issue.

As you might know, I did a study for the Stelmach government, back five years ago, arguing that Alberta needed to save more. I believe in the endowment approach, which is why I said Norway is a poster child. I was just talking about their management of resources; I think it's a very good example. They are not the only country that has done a better job of this; there are others too. But it was for the Alberta government that I did that report.

At the federal level, there are some corporate tax revenues you might get from the oil and gas industry, but with corporate taxes you're not talking about the same sorts of revenues as with royalties. Royalty policy is very much the provincial domain. One can criticize whether royalties are enough in Alberta or not, but that's something for the Alberta government to deal with.

Mr. Blaine Calkins: Mr. Willis, from the chamber's perspective, although I know you're here at the national level, I'd like to ask you a little bit about labour. I understand the notion of creating value-added jobs. There are tremendous examples of value-added jobs in my constituency in central Alberta, with the ethylene plants there and the jobs they have created, but not every drop of natural gas liquids is stripped off in order to produce commodities that are needed there.

I'm an Alberta MP, and the biggest problem I'm met with by employers is labour. It's fine to say that we can create value-added jobs up the chain through implementing some policy or whatever the case might be, but at the end of the day, is there really anybody able to come and work? In Alberta, one of the biggest imports we have is labour from outside Alberta to come and do this work. There aren't enough people now to do the work that we have slated in Alberta, and that's just on the extraction and the pipeline side, without counting the value-added side.

Mr. Willis, do you have anything that could help me as an Alberta MP or help this committee understand the labour shortage? We're facing a labour shortage and we're talking about creating jobs. Alberta has one of the lowest unemployment rates in the country.

● (1700)

Mr. Gil McGowan: Why don't you ask the labour guy the question about labour? That would be a radical idea.

Mr. Blaine Calkins: I'll get to you in a second, Mr. McGowan.

Mr. Gil McGowan: I'm sure you will.

Mr. Scott Willis: I'll keep my remarks fairly brief. The Canadian Chamber of Commerce views the skills crisis facing the Canadian economy right now as the single biggest challenge facing the country.

Nowhere is that problem more acute than in Alberta. I think there are opportunities to be found in keeping jobs at home and upgrading within the province.

I couldn't speak to the machinations that would be required to nationalize the resource at this point. As well—

Mr. Blaine Calkins: —there are some constitutional issues.

Mr. Scott Willis: Yes, that would pose some constitutional issues.

I have a great deal of respect for...but if you can divorce the Norwegian model.... In Norwegian politics, people don't have a problem enacting public policy that stings a little bit, that actually has sufficient traction to change behaviour.

Mr. Blaine Calkins: It's not a reality, really.

Mr. Scott Willis: Well, it could be. But it is obviously the biggest challenge facing your jurisdiction with respect to....

The Chair: Thank you, Mr. Calkins.

Mr. Blaine Calkins: I didn't mean to interrupt you. I was just going to ask whether I had more time, but if you'd like to finish your answer, I would appreciate it.

The Chair: Were you finished your answer, Mr. Willis?

Mr. Scott Willis: I didn't have anything of substance to add.

The Chair: Thank you.

Mr. Choquette, you have up to five minutes. Go ahead.

[*Translation*]

Mr. François Choquette (Drummond, NDP): Thank you, Mr. Chair.

[*English*]

Thank you, everyone.

Mr. Chair, because I will speak in French, I want to know that everybody has put their earphones on and would ask you to stop the time, please, if it's possible.

The Chair: No, we're going ahead.

[*Translation*]

Mr. François Choquette: I am going to speak French.

I want to thank all of you for being here today. I also thank you, Mr. Wiborg, for joining us via videoconference.

This is very interesting. I am not a permanent member of this committee. I sit on the Standing Committee on Environment and Sustainable Development. However, this study is very interesting, even from the environmental point of view.

One thing comes to mind regarding the theme of the study, which is economic diversification. Today, we talked at length about the oil sands, pipelines, and the importance of diversification for job creation. In this regard—still in the area of natural resources—there are other natural resources that are important. Blue Green Canada recently produced a report entitled “More Bang for Our Buck”. This is a very interesting report, which mentions that the diversification of our natural resources would allow for the creation of 18,000 to 20,000 more jobs.

I liked the way Mr. McGowan clearly explained the importance of job creation. Indeed, we can create many more jobs. It is important also that we not limit ourselves to a single resource.

In Norway, they knew that they had a single resource, but they created an impressive fund for future generations.

Perhaps Mr. Wiborg, and then Mr. McGowan, could talk about the importance of creating jobs through diversification, and of having a fund to allow us to re-target the economy, which will need to be redirected for future generations.

[*English*]

The Chair: Mr. Wiborg, go ahead, please.

Mr. Rolf Wiborg: I'll try to address that. I'll go back to the 10 oil commandments created by the standing committee of the Parliament of Norway in 1971.

It stated very clearly that oil and gas development should benefit all Norwegians. It stated that it should create a region-owned oil and gas industry—also one for the supply and delivery platforms—and we have done so.

Today, we export to the world from this industry. We don't only make money on oil and gas by producing it, but also produce the equipment needed for other nations, other provinces, other states, to make their own production viable in an environmentally friendly way.

The issue of jobs was raised earlier, and I tried to make a comment. My understanding is that Alberta imports labour today. Norway does the same. We have gone from four million to five million people in Norway in a very short time, so as to be able to deliver what we need for the oil and gas industry and also export. It's not so much for producing it, because they do that with less labour: automation has taken over.

The lady who set up the videoconference today is Swedish. She's Swedish first generation, coming from the Middle East—Scandinavia has imported people, like Canada. Norway is now filled with Indians, and Swedes, Polish people, Baltic nations people, Russians.... We need them.

We have Canadians coming in and taking good engineering jobs. You're losing them in Canada; we're getting them. Labour and competence is part of the competition. But we have also shipped some Norwegians to Calgary to develop the tar sands.

● (1705)

[*Translation*]

Mr. François Choquette: Thank you, Mr. Wiborg. Would it be possible, in the interest of the committee, to send us the commandments you are talking about? I think all of the committee members would be very happy to get them.

Mr. McGowan, did you want to add something?

In fact, I don't know how much time I have left.

[*English*]

The Chair: Your time is actually up.

Mr. McGowan, go ahead with a very short answer, please.

Mr. Gil McGowan: The question is about adding value. We've heard from several people that we cannot add value because of the concept of comparative advantage. My very quick response, first of all, is that there's not a consensus on that in the economic community. Moreover, I think Paul Krugman, the Nobel Prize winning economist, said it best in noting that if Korea and Japan had focused on this notion of comparative advantage, they'd still be exporting rice.

The Chair: Thank you, Mr. McGowan.

Mr. Leef, you have up to five minutes. please.

Mr. Ryan Leef (Yukon, CPC): Thank you, Mr. Chairman.

Thank you, everybody.

We've heard a bit of discussion around product diversification versus market diversification. I represent the Yukon and we have some smaller demonstration projects going on with geothermal, wind, and hydroelectric energy. We have LNG projects that are being explored right now. It raises a question that I have, and maybe I'll just run through the panel here and you can give me your thoughts on it.

Are we in a position where we can make the decision? It may not be this simple, but do we diversify the market first and then try to expose the people we create relationships with in diversified markets to the other technologies or products that we have? Or is there a suggestion that we would diversify our product first and then highlight the wonderful benefits of a broad range of products and then go shopping for a market? The reason I ask that is we've heard a bit of testimony in the past that there is a bit of a race going on in the energy market now, and the first one to complete projects will settle on those long-term contracts and that we run a risk of losing out there. You can probably see what I'm driving at. If we spend a lot of time trying to diversity a whole bunch of things that can be labour-intensive and very costly with infrastructure—and here we've heard a bit about the human capacity challenges involved—are we going to lose that opportunity and lose our markets while we're trying to develop that? Are we better just to solidify the market we now have and then try to grow a relationship of other products? Perhaps you could comment on that and add to it as you see fit.

We'll start with Mr. Willis and work our way down the line.

Mr. Scott Willis: Is the point job creation or is the point security of electricity and energy supply?

Mr. Ryan Leef: I guess that's up to you and me. We're looking at diversifying. So what are the key elements and points of diversifying? From that, which is the right route to go?

● (1710)

Mr. Scott Willis: I'm not sure I know enough about the provincial and territorial circumstances of the Yukon to weigh in knowledgeably about it.

Mr. Ryan Leef: Broaden that across the country; don't narrow it down to the Yukon. I'm just using that as an example to broaden the picture for the discussion of Canada in general.

Mr. Gil McGowan: I can only speak to the oil and gas industry, which I have the most experience with. I think that if concerted efforts aren't made by policy-makers at the provincial level primarily, but also at the federal level, we run the very real risk of being stuck at the low end of the value ladder. Once we're there, we may stay there. The infrastructure that's necessary for upgrading and refining is a multi-billion dollar one. Once it's built in the American Gulf Coast or the American Midwest, that's where it's going to be.

What I hear from the Alberta government, from industry, and increasingly from the federal government is talk of essentially a continental energy strategy, which people on one side of the table here just seem to accept as a given. But I would argue that this question about whether we should lock ourselves into a continental energy strategy where we're the subservient partners to the American lead partner, has never been put to Canadians during an election. It's not what Canadians support, and I think if you did put it to Canadians they would reject it.

So I think in response to your question about whether we should focus on diversifying products first, the short answer is yes, because if we don't do that we're going to get stuck in the role of being hewers of wood and drawers of water and diggers of oil sands for the long term, as opposed to taking on the more profitable and desirable role of value-adder.

Mr. Ryan Leef: Mr. Mintz.

Dr. Jack Mintz: There's one element of diversification you didn't mention. Let me go through it. There are two elements we've been talking about so far. One is what you might call product diversification, which is, in this case, heavy oil versus synthetic oil, which is the one we've been particularly mentioning, although you can also go into other types of manufacturing and other elements that one could talk about.

Then we have geographic market diversification, which is another concept or type of diversification.

But then there's a third one, which is often discussed in Alberta, but frankly, I think it's also an issue for Canada as a whole, and that's thinking about diversification across industries. This really gets to my point. You might try to move up the value-added chain in the case of bitumen going up to synthetic oil.

But the comment made by Mr. Calkins is right on the spot. If you have full employment already, you're not really creating more jobs, but you will push up wages. That could also hurt you in terms of industrial diversification, because what's happening is that you're going to end up drawing resources into that particular activity and away from other things that could be done, whether it's the agricultural industry, the manufacturing industry, or whatever. Actually, as you focus more resources into energy production, and if you do it through government policies that particularly move away from what the market is determining, then what you're actually doing, or could potentially do, which goes back to my point, is to undermine job creation.

Actually, it's not so much job creation we need to worry about in the future. We need to worry about incomes, because we're moving into a world of labour shortages, given demographic changes. That really pushes us more toward thinking about making the best use of the resources that we have available in this country in order to maximize what we want to achieve in terms of income.

We really have to worry about the productivity challenge, and I think trying to create more value-added by upgrading so we have less heavy oil and more synthetic exports goes to the point I was trying to make that you could actually undermine productivity in the economy. You could actually hurt us, because we will undermine industrial diversification that we actually need.

The Chair: Thank you, Dr. Mintz. Thank you, Mr. Leef.

We go now to Mr. Trost, for up to five minutes, followed by Mr. Julian and Mr. Garneau.

Go ahead please, Mr. Trost.

Mr. Brad Trost: Thank you, Mr. Chair.

Mr. Mintz, I've heard you a few other times. You talked about things like tax neutrality, lack of distortion, etc. You can talk about royalties, though we're going to stay away from that in our report because we understand that's a fully provincial jurisdiction. But I was wondering if there are any policies the federal or provincial governments are now pursuing that cause a distortion, be it to the regulatory policy or to the tax policy, in our natural resources exploitation and exportation.

I'm thinking now back to once upon a time when there were different corporate tax rates depending on natural resources. Are there things like that that we are continuing to do that we have not talked about or gotten involved in today?

● (1715)

Dr. Jack Mintz: Well, there have been a number of changes in the past three budgets that I would say are good ones. I'm a great believer in keeping rates low and the bases broad, and trying to have neutrality. I don't think governments are very good at picking winners and losers, and losers are pretty good at picking governments. It is important to have neutrality in the tax system, so I think getting rid of the mining corporate exploration tax credit was the right thing to do. In the recent budget, it was the right thing to reclassify certain expenditures that were getting expensing and now are going to be treated for development, which will get a slower rate of depreciation. I think the elimination of accelerated capital cost allowances for oil sands production that was done a few years ago, the phasing out of them, was exactly appropriate policy.

I would probably go a few things further. I would like to see the elimination of flow-through shares. I don't think they're doing a favour to the oil and gas industry or to the mining industry. I also think that there are probably some other areas that we could consider. But in terms of the work I've done, which is published, on what's called the marginal effective tax rate on capital, one of things that's quite surprising, at least to me when I actually did the analysis, is that the effective tax rate, in other words the impact on incentive to invest, is actually now higher, at least in Alberta, on oil sands compared to other industries. That's actually an interesting thing. In other words, even though people talk about various types of subsidies, there are elements of the tax system that could be changed.

Mr. Brad Trost: Do I understand you correctly? Effectively, the tax code in Alberta is discriminating against the oil sands.

Dr. Jack Mintz: That's including both corporate taxes and the way they relate to the royalty. The royalty in Alberta has been very well structured. It's very similar to the supplementary tax they have in Norway, where in principle it's supposed to be a rent tax. There are no rents at the margins, so you shouldn't have any royalties paid at that margin. I won't go into all the technical stuff, but an interaction goes on between the corporate tax and the royalty, which is something that I've pointed out now in a number of publications, including one in Australia. When you increase the royalty rate, it raises that marginal tax rate. In principle, it shouldn't do that. It's because of those interactions.

Mr. Brad Trost: Is that something we should look at? I'm no expert on this or even close to it. Should we look at a change in the federal corporate tax so it is more revenue neutral?

Dr. Jack Mintz: I believe that corporate tax should be neutral across industries. It's not right now. This is one point I would totally agree with Gil on, because we have a bias in Canada toward resource industries and manufacturing, but we keep hammering other types of industries in the economy, particularly on the service side where a lot of growth is. I'm a great believer in trying to get more neutrality in the system. I would like to try to see our continuing to move toward that goal.

Mr. Brad Trost: We haven't talked a lot about other things than oil today. We'll do it another day. Are there any comments on diversification, particularly of our gas resources? As much as I'd like it, given that I'm from Saskatchewan, I doubt anyone's got a comment on uranium. Does anyone have any comments on the things that we need to do with gas and electricity but haven't commented on today?

The Chair: Let's take a comment from one of you.

Mr. Wiborg, go ahead please.

Mr. Rolf Wiborg: This may be an interesting one for you. Norway has one LNG facility. It's way up there, close to the Barents Sea in the Arctic. That was developed mainly for the American market. Statoil built a part of an ...energy terminal to be able to get it into the U.S.

Today, we have shipped several LNG boats all the way to the Asian market. You are a lot closer to Asia than we are. The question in my mind for you is that you should look at your gas resources and [*Inaudible—Editor*] that toward the need for heating in the tar sands. Oil is more valuable than gas in the international market, even the bitumen. Upgraded, it improves. Refined, it improves a lot. You need gas to be able to do that. It's a question of going back to the old policies from the 1970s of the Alberta Energy Resources Conservation Board when the tar sands were able to buy gas cheaply so that they could produce all at the Syncrude plant. In 1974, that operation was not profitable. It was only the low Canadian gas price that made it happen.

You shouldn't go back to that, but you need to take a look at the overall Canadian energy situation, the energy situation of all the provinces—Alberta, Saskatchewan, British Columbia, etc.—and balance it for the Canadian voter...mostly U.S. companies, or for that matter all the foreign companies like Statoil.

● (1720)

The Chair: Thank you, Mr. Wiborg.

Mr. Garneau, you're probably only going to get one short question.

Go ahead, Mr. Julian.

Mr. Peter Julian: Thank you, Mr. Chair.

I wanted to come back to an issue that has been part of the discussions around Canada's export strategy. When we look at Keystone, what's happening in the United States is a strong reaction by the public and many people in the administration. Canada's lamentably bad record on fighting climate change and on environmental initiatives under this current government has tarnished the country's ability even to look at export markets. I know that Mr. Mintz is on the record as saying the federal government should get started on taxing carbon emissions sooner rather than later to avoid a patchwork of provincial carbon taxes.

Mr. Mintz has said very clearly that there should be a price on carbon. That's important. He said that in 2008, and I believe he was a government witness. It's very interesting that he disagrees with the Conservatives on this.

I wanted to know from you, Mr. McGowan, Mr. Willis, and Mr. Wiborg, whether you feel that putting a price on carbon is an important component.

The Chair: Are you going to work that in with market diversification in some fashion, Mr. Julian?

Mr. Peter Julian: Mr. Chair, I just spoke to the whole issue around Keystone and market diversification, and the problems that the lack of action by this Conservative government are provoking with Keystone.

That was in my preamble.

The Chair: I missed that part. You were very subtle with that!

Mr. Peter Julian: I thought it was pretty clear to everybody that there was a very clear tie-in with market diversification.

The Chair: Who would you like this to go to first?

Mr. Peter Julian: To Mr. McGowan, because he is a very intelligent and very adept gentleman, and he gave one of the best presentations we've heard.

The Chair: Mr. McGowan, go ahead.

Mr. Gil McGowan: It's interesting that you asked the question, because just last week our federation, which represents 27 unions and 160,000 unionized Albertans—I underline that, “Albertans”—passed a policy statement, a policy paper, on carbon taxes.

Our unions, including those representing energy workers, are 100% in support of the introduction of a more aggressive carbon tax. The Alberta carbon tax, at only $15 a tonne, is not doing the job of providing an incentive to clean up the industry's act.

Interestingly, one thing we included in our policy paper was the fact that industry itself is asking the provincial and federal governments to act. In fact, some people in industry are saying that they would accept a carbon tax as high as $100 per tonne, which is eight times higher than the current level.

Industry says they've already been working it into their plans and their projections about cost. Honestly, it would allow us to get rid of the black eye the Canadian energy industry has abroad. That black eye is significant. Politics matters when some of our potential markets might be closing themselves down to access by Canadian products.

So it's in our best interest. Industry wants it. It will improve our reputation. It will help with market access.

Let's get on with it and have a really significant carbon tax in this country.

● (1725)

Mr. Peter Julian: Mr. Willis, and then Mr. Wiborg.

The Chair: Go ahead, Mr. Willis.

Mr. Scott Willis: Thank you for your question.

I touched briefly on the need for a responsible energy policy to go—again, in the chamber's view—hand in hand with market diversification.

In a former life, I was a climate negotiator for the Canadian government. When you travel internationally, you learn very quickly that people aren't terribly interested in whether something is an Albertan problem, or a Newfoundland problem, or an Ontario problem: it's a Canadian problem.

As soon as we leave our border, it would be a lot easier for us to hold our heads high if there were a price on carbon. I think it would enable some of what we're talking about today.

The Chair: Mr. Wiborg, go ahead, please.

Mr. Rolf Wiborg: There may be a slightly different viewpoint from the European side.

A carbon tax makes sense as a soapbox issue. If there were a serious threat that bitumen from the tar sands would not get to the world market because of CO2 carbon tax issues, then of course—but it's just a way of taxing royalties.

The question is what are you going to use the money for? Is it going to go toward better environmental production, policies, technologies in Canada that you can transport and sell to the world? You might be a winner. We tried that one, and some of the industry won.

But look at Europe today, at the European common market. Look at the U.K. Look at Germany. They have ended up with energy that is so expensive that their industry has moved out. They are really short of possible jobs. The youth in Europe, 25% to 50%, are without jobs. This is the age group of 25, plus or minus.

I don't believe a carbon tax is the answer that people thought it was when they thought that the Kyoto plan would continue. Unless China, India, and other nations that are now out-producing us cost-wise apply it, or we apply a tariff that boosts charges on the import product when they don't have carbon tax in that nation, I think it's a losing way for everybody.

We have really exported jobs, which are going to nations that are using coal to fire their power plants. That pollution ends up everywhere, ladies and gentlemen—everywhere. The globe doesn't have borders in the atmosphere.

The Chair: Thank you very much.

Mr. Garneau, we're out of time. I apologize. I'll try to tack a little bit on to your questioning next time.

Thank you very much to all the witnesses today: as an individual, Dr. Jack Mintz, director and Palmer Chair in Public Policy, University of Calgary; from the Alberta Federation of Labour, Mr. Gil McGowan, president; from the Canadian Chamber of Commerce, Scott Willis, the director of natural resources and environmental policy; and, by video conference from Stavanger, Norway, as an individual, Dr. Rolf Wiborg, an engineer.

Thank you very much to all of you. All the best.

The meeting is adjourned.