



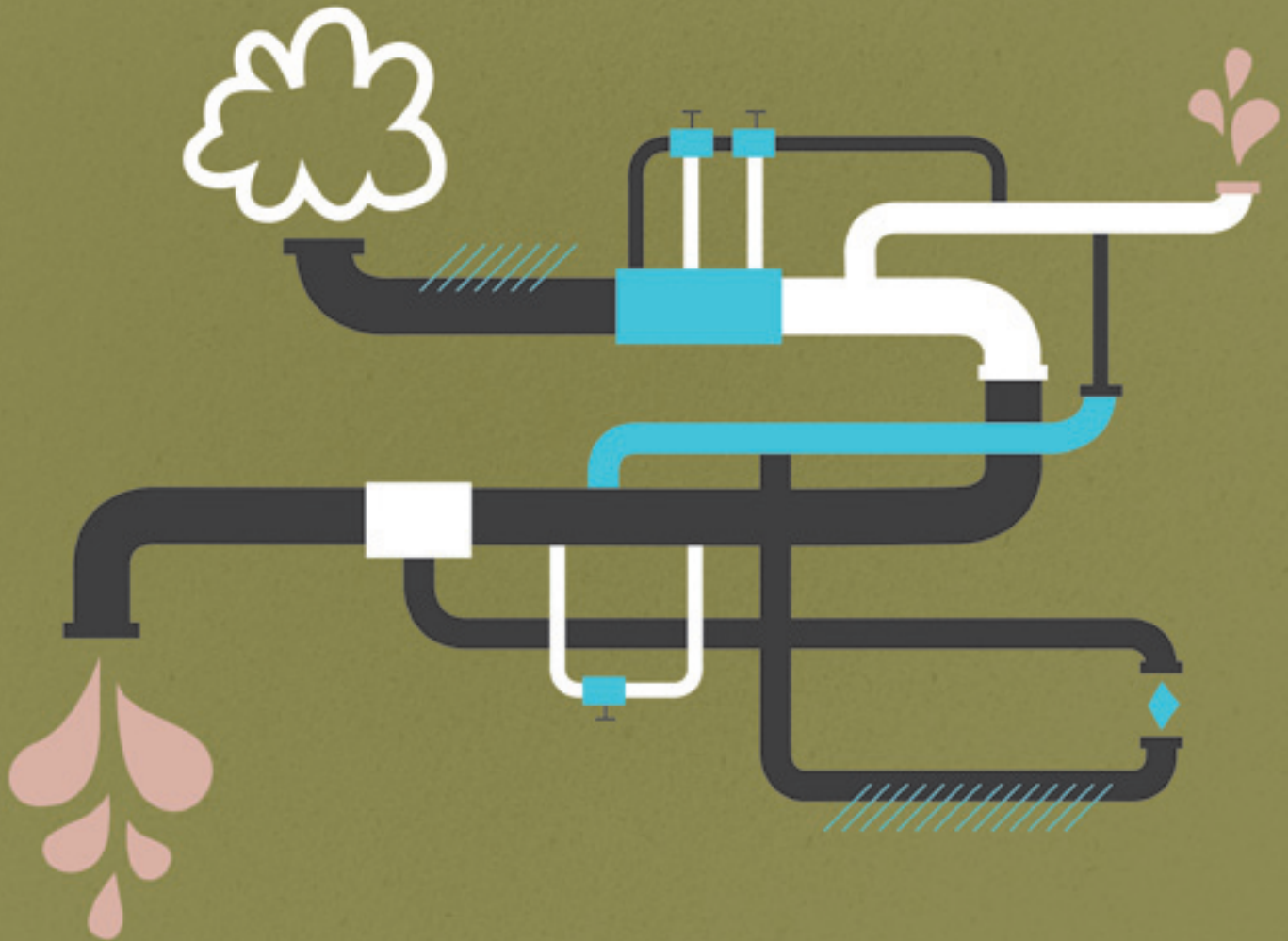
ONTARIO'S VOICE ON  
PUBLIC POLICY

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# The Politics of Pipelines

Ontario's Stake in Canada's  
Pipeline Debate



## Mowat Centre Info

The Mowat Centre is an independent public policy research centre located at the School of Public Policy & Governance at the University of Toronto.

The Mowat Centre is Ontario's non-partisan, evidence-based voice on public policy. It undertakes collaborative applied policy research, proposes innovative research-driven recommendations, and engages in public dialogue on Canada's most important national issues.

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Ontario's position on new pipeline projects should be grounded in reality. Canadians use oil and gas in every province in the country. It flows into and across our provinces by pipeline, by tanker and by rail.





# Executive Summary

The politics of pipelines in Canada is intensifying. No fewer than six major crude oil pipeline projects are currently being planned or considered to ship oil across the country. In addition, there are proposed gas pipeline projects to transport natural gas to the British Columbia coast for export.

But it is crude oil pipelines—particularly pipelines transporting production from the oil sands—that have become flashpoints. Environmental groups and energy companies have staked out clear positions, as have political parties and First Nations communities. Many provinces have made their positions clear and the Canadian Prime Minister has publicly stated he will not take “no” for an answer if the US refuses to approve the Keystone XL crude oil pipeline.

The Ontario government has recently announced that it is supportive of pipeline construction generally, stating it to be in the national interest. More detail about the nature of that support has yet to emerge.

Ontario’s position in this debate is inevitably more complicated than that of other provinces. New Brunswick and Alberta, for example, have very clear economic interests in the successful completion of the Energy East pipeline. BC has outlined its position in detail, which involves weighing the economic and environmental risks and rewards of pipeline projects and has recently signed a framework agreement with Alberta. Saskatchewan and Quebec have likewise articulated clear positions on major pipeline projects, in line with their economic interests.

Ontario’s interests are more complicated.

Ontario is in general supportive of economic development in New Brunswick and of Alberta’s continued prosperity and is thus inclined to support new pipelines. But Ontario also has a strong commitment to reduce the emissions which contribute to climate change. For nearly a decade, Ontario has confronted a federal government that refuses to recognize the contribution that Ontarians are making to reducing emissions while allowing the emissions from the oil sands to continue increasing unabated. So long as the federal government—and the government of Alberta—support a climate change policy that asks Ontarians—and other Canadians—to carry the largest burden and pay the biggest financial cost for reducing emissions, there are good reasons for Ontario to oppose pipeline development that will only exacerbate climate change.

Canada’s financial sector, headquartered in Toronto, has large investment interests in the development of the oil sands and the successful completion of pipeline projects. Many companies that sell goods to the oil sector have an interest. So do many high tech firms that could undertake the research and development of new technologies that would strengthen Ontario’s economy, provide services like pipeline management or environmental remediation, and would be part of a sophisticated pan-Canadian energy strategy.

Consumers likely also have an interest, as various pipeline projects will impact the price Ontarians pay for energy. First Nations and municipalities that expect to be hosts to pipelines will want to see their interests protected—both economically and environmentally—as it is these communities that will take on risk from accidents.

As Ontario considers these competing interests and perspectives, there are six areas Ontario should focus on:

## FIRST

The country benefits economically from increased oil and gas production. Ontario recognizes that the oil sector is important to the Canadian economy, particularly in Alberta. Many Albertans rely on the oil sector for their livelihood and some other Canadians and provinces see economic benefits in terms of employment, investment, and sales. New pipeline development should come with demonstrable economic benefits.

## SECOND

There are legitimate concerns regarding the environmental safety of proposed pipeline projects. These relate both to the long-term increase in emissions that will emerge from expansion of the oil sands as well as the more immediate risk of accidents and spills in local communities. These concerns are real and should be treated as such. Environmental and safety standards should be of the highest quality.

## THIRD

Ontario needs to ensure that there is a process where legitimate community and social concerns can be heard. Processes of public engagement should be as open, transparent and accessible as possible. Unreasonable restrictions on public engagement—as we have seen with the hearings on the Northern Gateway—do not serve the interests of Ontarians.

## FOURTH

First Nations communities in Ontario affected by new pipeline development must be part of the process. In particular, ways should be found to ensure that First Nations benefit from expanded pipeline capacity.

## FIFTH

Energy consumers in Ontario have a stake in this debate. For example, under the current proposal, the conversion of TransCanada's 50-year-old Canadian Mainline natural gas pipeline to carry crude oil in the Energy East project will cause natural gas prices for some Ontario consumers to increase. Advocates of pipeline expansion must ensure that Ontario consumers benefit from proposed expansion and are not asked to pay higher energy bills. This is an issue that merits a public process in Ontario.

## SIXTH

In a federation such as Canada, benefits—not only risks and costs—have to be widely distributed. Although pipeline advocates speak of the oil sector as a strategic national asset, almost all of the economic benefits from oil sands expansion flow to Alberta—94 per cent of the benefits by some estimates. More Canadians should see real benefits, which could take the form of changes to fiscal arrangements, climate change policy, more research and development of new energy technologies in the science and technology clusters in Ontario, or Community Benefit Agreements for First Nations impacted by pipelines. It challenges Canadians' sense of goodwill when the federal and Alberta governments speak of the national benefits of the expansion of the oil sands but expect the rest of the country to reduce emissions while Alberta does not.

Ontario's position on new pipeline projects should be grounded in reality. Canadians use oil and gas in every province in the country. It flows into and across our provinces by pipeline, by tanker, and by rail. The widespread use of fossil fuels in Canada—as well as their transport across provincial and international

borders—is not going to stop any time soon. Any Ontario position must recognize that, right now, oil and gas flow through pipelines across our province and that the overwhelming majority of Ontarians accept this. In fact, a recent poll confirmed that a majority of Ontarians support Alberta’s oil sector and proposed pipeline projects.<sup>1</sup>

On the other hand, new oil pipeline infrastructure is only needed if expansion of production in the oil sands is envisioned. Such expansion would significantly increase emissions that contribute to climate change. Some provinces and sectors are doing their share to help Canada achieve its GHG reduction targets, but this progress is being negated by the growth of the oil sands (see Figures 1 and 2). The most realistic and reasonable way for many Canadians to support pipelines and the expansion of oil sands production that would go with them is for this expansion to take place within the context of a federal price on carbon.

A price on carbon would allow for the expansion of the oil sands and pipelines within a context where the damage done to the environment and the climate is priced-in and mitigated. In the end, the expansion of pipelines within the context of a real federal price on carbon is in the interests of Ontario and Canada—and the hydrocarbon-producing provinces as well. Proceeds from a price on carbon could be used to support the transformation of the Canadian energy sector through investments in new research, development and clean technology.

The Premier of Ontario has clearly signalled that the province is supportive of Alberta’s economic agenda. Is Alberta prepared to be supportive of other provinces’ agenda, including Canadians commitment to address climate change?

1 CROP, Canada and Its Natural Resources, prepared for The Federal Idea, the Canada West Foundation, the Mowat Centre and the Atlantic Provinces Economic Council, October 2013. At <http://strategicedgeinnovations.com/fichiers/crop-oct-2013-en.pdf>.

FIGURE 1  
Projected change in GHG emissions by sector, 2005-2020<sup>2</sup>

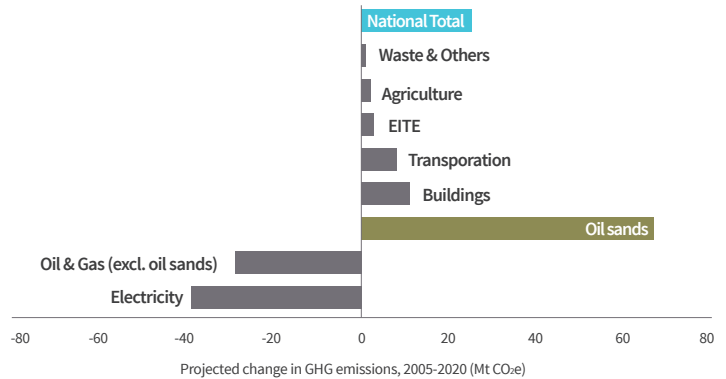
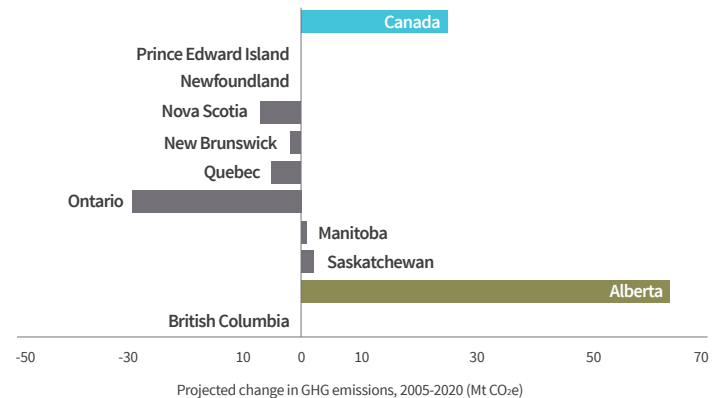


FIGURE 2  
Projected change in GHG emissions by province, 2005-2020<sup>3</sup>



2 P.J. Partington, “Trending Bad: What Environment Canada’s latest climate report says about Canada’s carbon pollution,” Pembina blog, October 29, 2013. At <http://www.pembina.org/blog/758>.

3 P.J. Partington, “Trending Bad: What Environment Canada’s latest climate report says about Canada’s carbon pollution,” Pembina blog, October 29, 2013. At <http://www.pembina.org/blog/758>.



A large, rusted metal pipe lying on the ground, with a blue line painted on its surface. The pipe is the central focus of the image, showing significant rust and wear. The background is slightly blurred, showing more pipes and a gravelly ground surface.

Under the current proposal, the conversion of TransCanada's 50-year-old Canadian Mainline natural gas pipeline to carry crude oil in the Energy East project will cause natural gas prices for some Ontario consumers to increase.



# 1

## Introduction

This paper sets out the issues and interests for Ontario as it considers its response to the prospect of expanded oil pipeline development across its territory. There are significant national and regional political, economic, environmental, and social considerations at play.

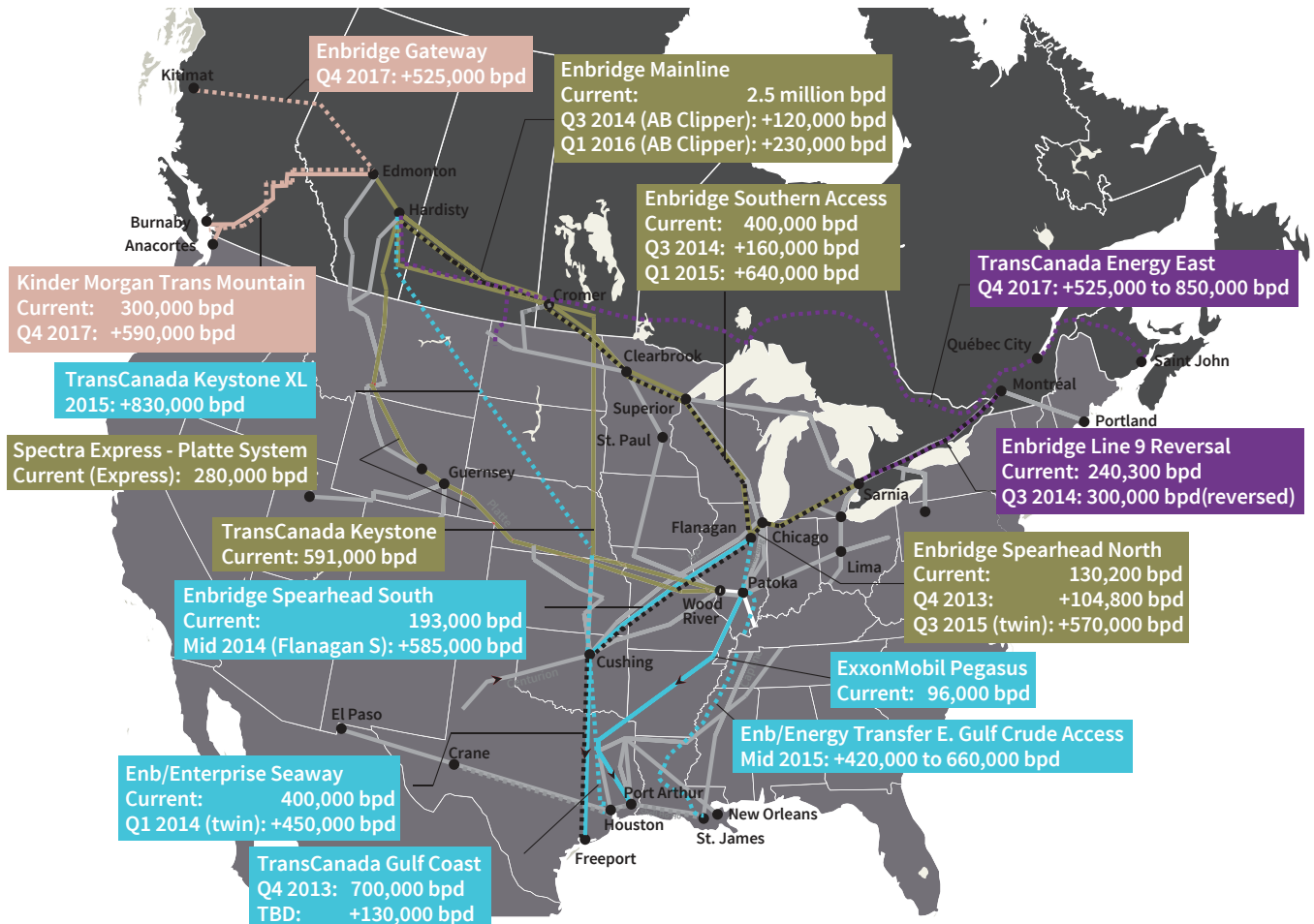
Ontario is both a destination and a transit way for Canada's energy products. It is a hub connecting not just parts of Canada but also the US with oil and gas pipelines. A major refinery centre is located in Sarnia. Ontario's economy and residents benefit from access to energy products delivered via pipelines. Jobs are directly implicated in the provision and transportation of oil and gas products to and across the province. Increased economic activity in Alberta and Saskatchewan has positive impacts across the country. On the other hand, heightened resource revenues for provincial governments in Alberta and Saskatchewan increase the burden on the Ontario taxpayer to fund increases in equalization payments and redistribution away from Ontario.

There are six large crude oil pipelines that have been recently approved by the National Energy Board (NEB, the federal energy regulatory) or proposed (see Figures 3 and 4). Two of the pipelines will be partially located in Ontario, Enbridge's Line 9B and TransCanada's Energy East. It is important to note that all these proposed pipelines are designed to carry crude oil from Alberta to markets, primarily export markets.

**FIGURE 3**  
Proposed crude oil pipeline developments in Canada

| Pipeline         | Developer     | Proposal  | Status   |
|------------------|---------------|---|--|
| ALBERTA CLIPPER  | Enbridge      | Expansion of the existing Line 67 from 450,000 barrels of oil per day (bpd) to 570,000 bpd. The pipeline runs from Hardisty, Alberta to Superior, Wisconsin for export.   | Received NEB approval in February 2013                   |
| KEYSTONE XL      | TransCanada   | A 1,900 km pipeline from Hardisty, Alberta to Steele City, Nebraska to export 830,000 bpd to the US.  | Awaiting US State Department recommendation to President |
| NORTHERN GATEWAY | Enbridge      | A 1,200 km pipeline to transport 520,000 bpd from Alberta to Kitimat, BC, where it will be exported by tanker.  | Under NEB review   |
| TRANS MOUNTAIN   | Kinder Morgan | Expanding and twinning a current 1,150 km pipeline from Alberta to Burnaby, BC from 300,000 bpd to 890,000. From BC the oil will be exported by tanker  | Under NEB review   |
| ENERGY EAST      | TransCanada   | Conversion of an existing natural gas pipeline to Ontario (the Canadian Mainline), and expanding the pipeline to Quebec and New Brunswick to carry 500,000-850,000 bpd. Total pipeline will be 4,460 km, 3,000 km of which will be existing natural gas pipeline. The oil will be both refined domestically and exported. | Expected to be submitted to the NEB in 2014              |
| LINE 9B          | Enbridge      | A reversal and expansion of an existing 639 km line to carry 240,000-300,000 bpd from North Westover, Ontario to Montreal for refining and export.  | Under NEB review   |

**FIGURE 4**  
Existing and proposed crude oil pipelines in Canada and the US



While this paper examines oil pipeline development, natural gas pipelines also have an important role in Ontario's energy consumption. Attention across the country has focused on the issue of crude oil pipelines, particularly those that are transporting production from the oil sands, but the politics of oil pipelines exist within a broader context of a changing energy market in Ontario and the Great Lakes-St. Lawrence region.

The development of shale gas in the US has dramatically affected Ontario's gas market. While previously Ontario was a transit province and export hub for gas to the US and to Quebec, the province is increasingly importing gas from the US (primarily from the Marcellus shale and Utica shale gas reserves) for domestic consumption. There are concerns about TransCanada's Energy East project, which, as it involves converting portions of a gas pipeline over to crude oil, could reduce the amount of gas available in Ontario during peak demand periods.

So far, little attention has been paid to what new oil pipeline development might mean to and for Ontario. National energy discussions have typically focused on an Alberta-outward configuration and whether new oil sands development will have access principally to American or Asian markets via new pipeline projects west, south and east. Those discussions have been less than fruitful and pipelines are the object of significant environmental, First Nations, and local community opposition in parts of Canada and the US. President Obama has publicly dismissed claims about the economic benefits to the US from Keystone XL. But is there a larger Ontario interest in these debates?

In October 2013, during meetings with Alberta Premier Alison Redford, Premier Kathleen Wynne made it clear that Ontario supports expanded pipeline capacity and that Ontario has an economic interest in supporting Alberta's energy sector and in ensuring that Alberta oil could get to markets. But Premier Wynne also highlighted that there were legitimate environmental and First Nations issues that would need to be addressed. There are

many issues for Ontario as it considers whether to articulate a more fully-fleshed out position on pipeline expansion.

Many Canadians are employed directly in the pipeline industry. Many more who work in the oil and gas sector are indirectly dependent on pipelines for their livelihood. Personal, corporate and property taxes are all generously paid by the industry, in addition to royalties to provincial governments for the sale of oil and gas.

Pipelines have been around for more than a hundred years in Canada. National pipeline networks have been in place since the 1950s and internationally before that. Pipelines have been drivers of economic growth and energy access. On the other hand, issues of land expropriation, community access, Aboriginal rights and revenue sharing, and environmental concerns have tempered support. More recently, spills and resulting impacts on soil, water, and biodiversity have raised other legitimate public concerns.

## About Pipelines in Canada

Although the politics of pipelines are attracting more public attention, few Canadians are aware of how pipelines actually work. Pipelines are crucial energy arteries carrying crude oil and natural gas across Canada and for export to the US. There are four types of pipelines.

### GATHERING LINES

Short distance pipelines from wells to processing stations.

### DISTRIBUTION PIPELINES

Distribute natural gas locally.

### FEEDER LINES

Move oil and gas from storage facilities or stations to long-haul transmission pipelines.

### TRANSMISSION PIPELINES

Are the main 'energy highways' across provinces and, in some cases, to the US.

There are currently more than 450,000 km of distribution pipelines; 250,000 km of gathering lines; 100,000 km of transmission pipelines; and 25,000 km of feeder lines. Every day about 3 million barrels of oil and over 14 billion cubic feet of natural gas are transported through Canadian pipelines.





In general, there is broad public support for the development of the oil sands and pipelines. According to a recent opinion poll, 63 per cent of national respondents (62 per cent in Ontario) agree that oil and gas development benefits Canada. Slightly fewer, 55 per cent (55 per cent in Ontario), also agree that oil sands development benefits Canada. This support translates into support for pipeline development: 65 per cent of respondents (66 per cent in Ontario) support building a sea-to-sea network of oil pipelines.<sup>4</sup>

But global attention has increasingly focused on bitumen, oil sands development and climate change. The oil sands have become a globally recognizable symbol in the international discussion over what to do about climate change. The debate over pipelines is about more than a particular pipeline project itself—it is also a debate over whether we should continue to exploit the oil sands given their contribution to global increases in emissions. Canada's poor record on climate change makes it more difficult for pipeline proponents to persuade people to give them the social licence to expand pipeline capacity.

Between 1990 and 2011, Canadian greenhouse gas (GHG) emissions increased by 18.8 per cent (despite the reduction in emissions following the global recession in 2008), primarily as a result of oil and gas development. Emissions in this sector are projected to rise. When Canada signed the Copenhagen Accord in December 2009, it committed to reducing its GHG emissions to 17 per cent below 2005 levels by 2020, a target that Environment Canada says will not be met with current policies. In fact, under current measures, emissions in 2020 will be virtually unchanged from 2005 levels.<sup>5</sup> While most provinces are reducing their emissions—and Ontario is doing so dramatically—the expansion of the oil sands, especially in Alberta, is negating the efforts of every other province and sector (see Figure 1).

4 CROP, *Canada and Its Natural Resources*, prepared for the Federal Idea, the Canada West Foundation, the Mowat Centre and the Atlantic Provinces Economic Council, October 2013. At <http://strategicedgeinnovations.com/fichiers/crop-oct-2013-en.pdf>.  
5 Environment Canada, *Canada's Emission Trends 2013*, October 2013. At [http://www.ec.gc.ca/ges-ghg/985F05FB-4744-4269-8C1A-D443F8A86814/1001-Canada%27s%20Emissions%20Trends%202013\\_e.pdf](http://www.ec.gc.ca/ges-ghg/985F05FB-4744-4269-8C1A-D443F8A86814/1001-Canada%27s%20Emissions%20Trends%202013_e.pdf).

Pipeline companies and energy producers have been forced to respond well beyond their traditional expectations and capacities. The usual concerns about spills have been augmented by new debates around what to do about climate change. From siting and construction, to accidents and liability, to product transportation—pipeline companies and their suppliers are facing strong and growing pressure on their social licence to build and operate. In short, pipelines are no longer about simply transporting energy products to markets and consumers; they are symbols of the environmental impact of fossil fuels on the planet.



Some provinces and sectors are doing their share to help Canada achieve its emissions reduction targets. Ontario and its energy sector are leading the way. But this progress is being negated entirely by the growth of the oil sands.





# 2

## National Interests

### 2.1 Canadian Economics of Energy

Natural resource development has always been important to Canada's economic prosperity. The exploitation of Canada's natural wealth has been at the core of economic development in the country since before Confederation. In recent years the development of oil and gas in particular has been an important source of wealth to the country, particularly in Alberta.

There is vast potential for the development of energy products in Canada. Canada has the third largest oil reserves in the world's sixth largest oil producer. Natural gas is likewise important given that Canada is the third largest gas producer in the world.

In 2012, oil and gas extraction directly accounted for 5.9 per cent of Canada's GDP. Exports of oil and gas products totalled \$81.8 billion (\$73 billion of which was oil), accounting for 18.0 per cent of export earnings.<sup>6</sup> Virtually all exports of energy products were to the US. Over three-quarters of all crude oil was produced in Alberta, followed by Saskatchewan with 14 per cent of total production.<sup>7</sup> The oil and gas industry across Canada employed 79,155 people in 2012, and employment in non-conventional production, such as the oil sands, is increasing.<sup>8</sup> Gas production fell in 2012 for the fifth year in a row as most gas plays are now uneconomical as a result of currently low gas prices due to increased shale gas production in the US.

The price that Canadian oil producers receive for their output is dependent on transportation and export potential. Canadian oil production is priced based on two pricing benchmarks, Edmonton Par and Western Canadian Select (WCS, a blend of heavy crude oil with sweeter synthetic crude).<sup>9</sup> The price for WCS, the most common benchmark as it includes most production from the oil sands, is based on a discount to the US oil price benchmark of Western Texas Intermediate (WTI, see Figure 5). Historically, WCS has been sold for a \$15 a barrel discount to WTI due to WCS being a lower quality of crude and to cover the costs of transporting the oil from Hardisty, Alberta, where WCS contracts are settled, to Cushing, Oklahoma, where WTI contracts are settled.

6 Statistics Canada, CANSIM tables 228-0059 and 379-0031. At <http://www5.statcan.gc.ca/cansim/home-accueil?lang=eng>.

7 National Energy Board, Canadian Energy Overview 2012, July 2013. At <http://www.neb-one.gc.ca/cif-nsi/nrgynfmr/nrgyrprt/nrgyvrw/cndnrgyvrw2012/cndnrgyvrw2012-eng.pdf>.

8 Statistics Canada, CANSIM table 383-0030. At <http://www5.statcan.gc.ca/cansim/home-accueil?lang=eng>.

9 National Energy Board, Canadian Energy Overview 2012, July 2013. At <http://www.neb-one.gc.ca/cif-nsi/nrgynfmr/nrgyrprt/nrgyvrw/cndnrgyvrw2012/cndnrgyvrw2012-eng.pdf>.

**FIGURE 5**  
Crude oil benchmarks

| Benchmark     |                               | Description  |
|---------------|-------------------------------|--|
| CANADIAN      | Edmonton Par                  | Edmonton Par is a lighter crude, comparable to WTI, and sells for a higher value than WCS. It is sold at Edmonton.   |
|               | Western Canadian Select (WCS) | WCS is a blend of Canadian heavy and bitumen crude oils with sweet synthetic and condensates. It is the benchmark for most production from oil sands and is sold at Hardisty, Alberta.         |
| INTERNATIONAL | West Texas Intermediate (WTI) | WTI is the principal oil price benchmark for light US oil. WTI is sold on the New York Mercantile Exchange (NYMEX) for delivery at Cushing, Oklahoma.  |
|               | Brent                         | Brent is the principal oil price benchmark for oil sold outside North America. It is based on the price of light oil from the North Sea and is sold on the ICE Futures exchange in London, UK. |

However, a bottleneck in transporting oil to Cushing, Oklahoma, the destination for most exports to the US, partially as a result of a lack of pipelines and partially due to increased US oil production, led to a discount of \$35 a barrel of WSC to WTI in January 2013.<sup>10</sup> The increase in this discount was estimated by the Bank of Canada to have resulted in a 0.4 per cent reduction in Canadian GDP growth.<sup>11</sup>

The high discount between WSC and WTI in recent years is one reason why companies are working to increase pipeline capacity to the US. But it is not just the WSC-WTI price differential that is driving investment in pipeline development. Outside of North America, most crude oil is priced based on another benchmark, Brent Crude. In recent years, due to an oversupply on the American market and a lack of export options for North American crude, the price of Brent has on average been \$10 more than WTI, whereas historically the price differential was only \$2-3. If Canadian producers can export oil outside of North America to Asia or Europe, they would be able to receive a higher price based on the Brent benchmark rather than WTI, which would increase their revenue per barrel.

The challenge of transporting oil produced in Alberta's oil sands and the price differential with WTI will become more urgent given the expected production growth rates. According to the NEB, oil sands production is projected to more than double from two million bpd in 2010 to 4.5 million bpd in 2035.<sup>12</sup>

The price differential between WCS and world benchmarks affects the amount of revenue governments receive. On average governments receive \$22 billion a year in taxes, royalties and leases for the oil sector. In 2012, oil companies spent \$104.9 billion in operations and capital expenditure, which would have been subject to municipal, provincial and federal taxes. An additional \$12.2 billion was paid in royalties to provincial governments.<sup>13</sup>

The revenue provinces receive from royalties is heavily dependent upon the price producers receive for selling their product. For example, in 2011-12, the government of Alberta received \$6.8 billion in royalties. Because WCS has recently been sold at a lower price the government forecasts that it will only receive \$5.4 billion in 2012-13,

10 Bank of Canada, Monetary Policy Report, July 2013. At <http://www.bankofcanada.ca/wp-content/uploads/2013/07/mpr-2013-07-17.pdf>.

11 National Energy Board, Canadian Energy Overview 2012, July 2013. At <http://www.neb-one.gc.ca/clf-nsi/nrgynfmrtn/nrgyrprt/nrgyvrw/cndnrgyvrw2012/cndn-nrgyvrw2012-eng.pdf>.

12 National Energy Board, Energy Futures Background: Addendum to Canada's Energy Future: Energy Supply and Demand Projections to 2035, 2012. At <http://www.neb.gc.ca/clf-nsi/nrgynfmrtn/nrgyrprt/nrgyft/2012/nrgftrddndm2012-eng.pdf>.

13 Canadian Association of Petroleum Producers, Statistical Handbook for Canada's Upstream Petroleum Industry, September 2013. At <http://www.capp.ca/GetDoc.aspx?DocId=219433&DT=NTV>.

down from an initial estimate of \$7.7 billion for the same year, and \$5 billion in 2013-14—and this in spite of increased oil production. The reduced royalty payments in Alberta is of great importance to the province, given that about 30 per cent of its public budget is financed through oil and gas revenues, and royalty payments are an important part of this.<sup>14</sup>

Regardless of the royalty payments, with three-quarters of the oil and gas industry located in Alberta, the province benefits immensely from the sector, both in tax revenue and employment. If the additional pipelines are completed, it will become easier to transport crude oil, meaning that the price difference between Canadian (both Edmonton Par and WCS) and international benchmarks will be smaller. As developers will be able to sell their output at a higher price, the province would receive higher royalty payments. While an increase in royalty payments will primarily benefit the oil-producing provinces, a higher oil price in Canada should mean that development overall would increase, which would increase tax revenue for the federal government as well.

The Canadian Energy Research Institute estimates that \$2.1 trillion in GDP would be added to the Canadian economy between 2010 and 2035, 94 per cent of which would remain in Alberta, due to investment and operation of projected oil sands developments. The remaining 6 per cent of GDP growth would be mainly split between Ontario, BC and Quebec, with Ontario's share totalling 3 per cent. In terms of employment (direct and indirect), approximately 7 per cent of all person hours will be in Ontario, with Alberta again claiming the highest with 86 per cent of all employment between 2010 and 2035. In addition, between 2010 and 2035, the projected oil sands development in Alberta, the federal government would receive an extra \$311 billion in tax revenue, while Alberta would receive \$105 billion in

tax revenue and \$350 billion in royalties, totalling \$455 billion. In 2035 alone, Alberta is projected to receive \$36 billion in royalty payments.<sup>15</sup>

There are a number of possible effects that a burgeoning resource economy in Western Canada could have on Ontario. There is a wide consensus that developments in Canada's resource sector, particularly in oil and gas, have contributed to a rapid escalation in Canadian exchange rates, and that these have had a negative impact on the Ontario manufacturing sector. While a debate over whether Canada is suffering from "Dutch disease" is not likely to produce a clear answer, there is no doubt that dealing with the rapid escalation in the value of the dollar has been a challenge for many manufacturers.<sup>16</sup>

In addition, ballooning natural resource revenues in a small number of provinces has driven up the size of the equalization program because of growing disparities in fiscal capacity between oil-rich and oil-poor provinces. This has meant an increase in fiscal benefits for most equalization-receiving provinces. For Ontario, however, it has meant that its tax base—to which the federal government has access, unlike with oil and gas royalty payments—has been asked to pay a disproportionate share of these payments. While the Ontario government receives a small equalization cheque, this is more than offset by the huge tax burden that is being placed on Ontarians to fund regional redistribution being driven by the natural resource sector.

The oil and gas industry also pays federal taxes, which includes corporate taxes and the personal income taxes

14 Government of Alberta, Budget 2013: Operational Plan—Fiscal Plan 2013-16, March 7, 2013. At <http://finance.alberta.ca/publications/budget/budget2013/fiscal-plan-operational-plan.pdf>.

15 Afshin Honarvar, et al., Economic Impacts of New Oil Sands Projects in Alberta (2010-2035), Canadian Energy Research Institute, May 2011. At <http://www.ceri.ca/images/stories/CERI%20Study%20124.pdf>. Figures are from the report's "realistic" scenario. Note that the amount in royalties in particular is highly dependent on future oil prices.

16 See, for example, Mark Carney, Dutch Disease, Speech at the Spruce Meadows Round Table Calgary, Alberta, September 20, 2012. At <http://www.bankofcanada.ca/2012/09/publications/speeches/dutch-disease/>; Stephen Gordon, The Canadian Manufacturing Sector, 2002-2008: Why Is It Called Dutch Disease?, University of Calgary School of Public Policy SPP Research Papers, Vol. 6, Issue 26, September 2013. At <http://policyschool.ucalgary.ca/sites/default/files/research/s-gordon-dutch-disease.pdf>. Also see Peter Spiro, More Stability, Please: A New Policy Approach to Canada's Exchange Rate, Mowat Centre, April 2013; Thomas J. Courchene, Surplus Recycling and the Canadian Federation: Addressing Horizontal and Vertical Fiscal Imbalances, Mowat Centre, August 2013. At <http://mowatcentre.ca>.



for those employed in the sector. These revenues allow some wealth to be distributed across the country, but most of the benefits are heavily concentrated in Alberta. Overall, while the significant economic benefits of the oil and gas industry are concentrated in Alberta, the environmental and social costs are distributed across the country.

## 2.2 Canadian Energy Policy

Energy policy in Canada has often been controversial. From the construction and debate over the TransCanada Pipeline, the National Energy Program of the 1980s, and oil sands development this past decade, to hydro development in Eastern Canada and green energy development in Ontario, Canadians have reacted strongly to various government and industry attempts to provide policy direction. The constitutional battles of the late 1970s and early 1980s established clarity on ownership and exploitation of resources in the ground and offshore. Federal and provincial roles and responsibilities have been carved out.

Notwithstanding various political and independent policy efforts, Canadian energy policy can be characterized as a collection of provincial and regional policies rather than an integrated national energy policy. Principally due to the variety of energy resources across the country and the concomitant provincial ownership established in the Constitution, the pace and scale of exploitation has been set by provincial governments responding to both domestic and international market conditions.

Federal policy direction and support has been based on a range of factors including market-driven economics, provincial ownership and net benefits, tax policy, and fiscal transfer issues such as equalization formulas. It has not been the stated intent of federal governments since the mid-1980s to intervene nationally through broad-based programming or policy changes to either create

or correct energy markets. Nevertheless, there have been individual instances of federal support for energy projects, such as a loan guarantee for the Muskrat Falls hydroelectricity project in Labrador on the Lower Churchill.

New federal policy initiatives in the energy field of late have been aimed principally at reducing and streamlining the regulatory burden on pipeline developments and major energy projects. In this respect, the federal government has been fairly intrusive in attempting to facilitate market access for oil sands products. This includes Bill C-38 last year, which moved to a 'one project, one review' concept for regulatory approvals by federal and provincial governments so that the federal government may not require an environmental assessment if the provincial government has already done one. It also redefined the process for NEB hearings, reducing the number of interventions that needed to be heard before the NEB makes a decision. It also gave the federal cabinet authority to overturn a decision that was made under the Canadian Environmental Assessment Act if "the significant adverse environmental effects that the designated project is likely to cause are not justified in the circumstances".<sup>17</sup> In effect, this allows the federal government to introduce into NEB decisions a form of 'national interest' or 'net benefit' reasoning seen in other federal policies such as those covering foreign investment.

## 2.3 Canadian Climate Change Policy

Like energy policy, Canadian climate change policies are a mix of federal and provincial policy actions, lightly coordinated and of uneven effectiveness. Progress is very uneven regionally, with such provinces as Ontario and BC decreasing their emissions, while Alberta and Saskatchewan have been increasing them.

17 Canadian Environmental Assessment Act, 2012, section 7. At <http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5697420&File=74#15>

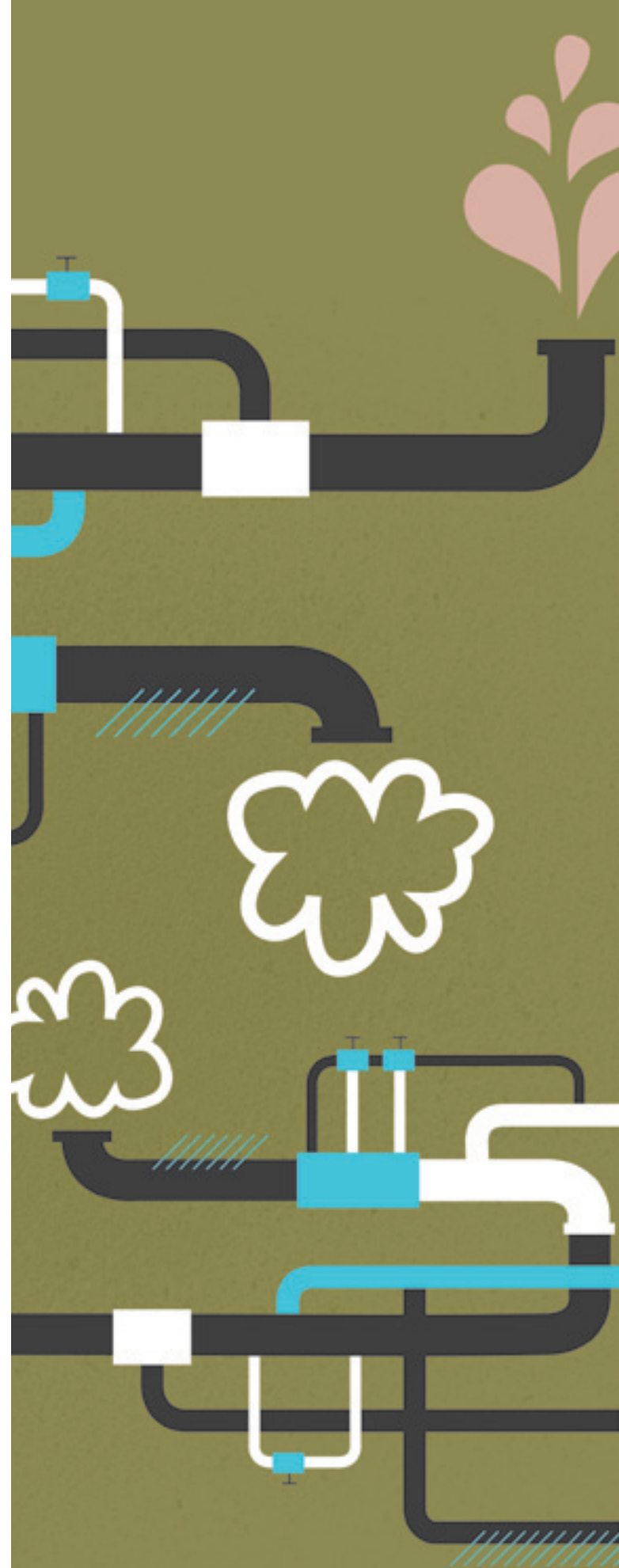
Under the Copenhagen Accord, the federal government has set a target of reducing GHG emissions to 17 per cent below 2005 levels by 2020, a target in line with American commitments. Emissions did decline 4.8 per cent between 2005 and 2011, but when looked at from 1990 levels emissions actually increased by 18.8 per cent. Emissions have declined in many sectors, but the sectors with the largest increase between 1990 and 2011 were mining and oil and gas production, which increased by a combined 61 per cent in that time period.

Emissions in oil and gas production have been relatively stable since 2005 as the increase in emissions from oil sands development have been offset by declining conventional oil and gas development. In addition, oil sands development has become more efficient, reducing GHG emissions per barrel of oil. However, as production from the oil sands is projected to more than double between 2011 and 2020, emissions in 2020 from oil sands development is also expected to double, at which time it will be the largest source of GHG emissions in Canada.

According to Environment Canada, under current measures Canada will not meet its Copenhagen Accord target of reducing GHG emissions to 17 per cent below 2005 levels by 2020. It is projected that by 2020 emissions will be 734 megatonnes of CO<sub>2</sub>, virtually unchanged from the 737 megatonnes in 2005 (see Figure 6).<sup>18</sup>

As a result new federal and provincial policy measures would have to be put in place to meet the target. Almost three-quarters of all emission reductions projected by 2020 are due to policy measures in a number of provinces. Ontario's elimination of coal-fired electricity plants is a major positive factor in this regard. The federal government continues to work on new oil and gas sector regulations but no date for release has been set. The lack of acknowledgement of costly climate change reduction efforts going on across the country, coupled with a concentration of economic benefits in Alberta, complicates the discussions over the expansion of pipelines.

<sup>18</sup> Environment Canada, Canada's Emission Trends 2013, October 2013. At [http://www.ec.gc.ca/ges-ghg/985F05FB-4744-4269-8C1A-D443F8A86814/1001-Canada%27s%20Emissions%20Trends%202013\\_e.pdf](http://www.ec.gc.ca/ges-ghg/985F05FB-4744-4269-8C1A-D443F8A86814/1001-Canada%27s%20Emissions%20Trends%202013_e.pdf).



As the province with the largest reserves of oil sands and the highest production, action in Alberta is important for the entire industry. Alberta has set up a carbon reduction program, the Specified Gas Emitters Regulation (SGER), where major industrial facilities that emit 100,000 tonnes of GHG a year must reduce their emissions intensity (i.e., the amount of emissions per unit of production) by 12 per cent below their 2004-2005 baseline intensity. If they are unable to do so, the company can buy credits from facilities that have over-achieved their target or pay \$15 for each tonne of carbon over their target.<sup>19</sup>

There has been some criticism of Alberta's program. Environmental groups have said that Alberta's program will not deliver the emissions reduction envisioned and that the penalty for not achieving the target is too low.<sup>20</sup> Investors are likewise concerned about emissions, as future carbon costs could affect the long-term profitability of investments and they want clarity on any future cost of carbon.<sup>21</sup>

Federal policy pronouncements on oil sands, reduced environmental assessment and oversight, and lack of effective climate change policies have together galvanized significant environmental opposition to new pipeline projects. This opposition raises traditional environmental concerns—like the safety of pipelines, despoiled habitats and the risk of accident—with newer macro level environmental concerns around climate change.

Leaks and spills from pipelines are widely and quickly reported in the mainstream and social media. There have been a number of large oil spills in Alberta in recent years—an average of two a year for the past 37 years although the number has been dropping in

recent years<sup>22</sup>—which has focused attention on the environmental risks of oil pipelines. Keystone XL has had to contend with this challenge for several years now, following a major Enbridge spill in Michigan in 2010. But this has been just as acute in British Columbia with the Northern Gateway project and to a lesser degree Kinder Morgan's Trans Mountain project, as a result of high-profile spills in Canada such as the seepage into a lake near Cold Lake, Alberta.<sup>23</sup> A recent report by the CBC has mapped over 1,000 pipeline incidents in Canada since 2000.<sup>24</sup>

Following the train disaster in Lac-Mégantic, Quebec, which resulted in the deaths of 47 people, attention has also started focussing on the safety of having oil and gas shipments of all types. This is despite the fact that pipelines are relatively safer than other forms of transport.

External players and dynamics, particularly within the US environmental network and Canadian First Nations communities, are adding to the debate with strong opposition. This is driven by four main factors:

- Oil from the oil sands uses more water and produces damage to the soil, making it more polluting and visually unappealing than traditional oil extraction;
- the higher carbon content in oil sands oil makes a focus on pipelines a plausible strategy to stop new oil sands production in an effort to deal with climate change;
- lack of global progress on climate change negotiations leading to new activism; and
- no real climate change policy from the federal or Alberta governments that would lead to a reduction in emissions from the oil sands.

19 For more information see Government of Alberta, "Greenhouse Gas Reduction Program." At <http://environment.alberta.ca/01838.html>.

20 For example see Matthew Bramley et al., *Responsible Action? An assessment of Alberta's greenhouse gas policies*, Pembina Institute, December 2011. At <http://www.pembina.org/pub/2295>.

21 Shawn McCarthy, "Oil sands firms urged to reveal risks of carbon crackdown," *Globe and Mail*, October 24, 2013. At <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/oil-sands-firms-urged-to-revealarisks-of-carbon-crackdown/article15065373/>

22 Leslie Young, "Crude Awakening: 37 years of oil spills in Alberta," *Global News*, May 22, 2013. At <http://globalnews.ca/news/571494/>.

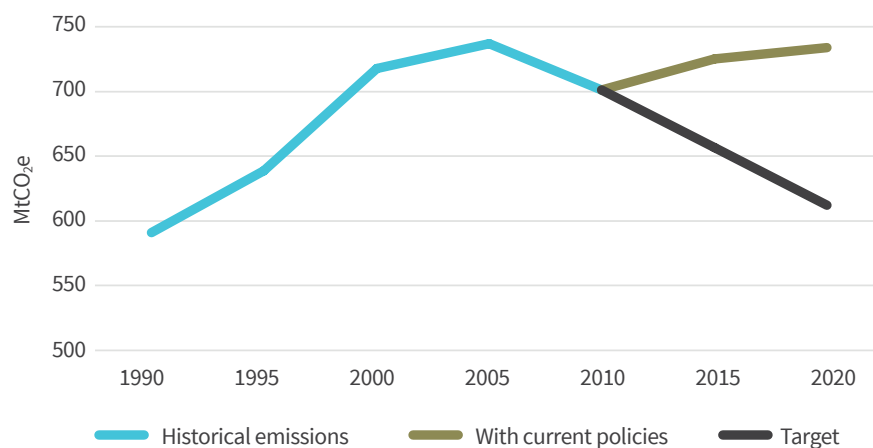
23 "3-day ceremonial walk underway to protest Cold Lake spill," *CBC News*, October 27, 2013. At <http://www.cbc.ca/news/canada/edmonton/3-day-ceremonial-walk-underway-to-protest-cold-lake-spill-1.2253076>.

24 Amber Hildebrandt, "Pipeline safety incident rate doubled in past decade: Database gives detailed picture of 1,047 reported problems," *CBC News*, October 28, 2013. At <http://www.cbc.ca/news/pipeline-safety-incident-rate-doubled-in-past-decade-1.2251771>.



In addition to environmental concerns, Canadian First Nations communities are, rightfully, insisting that they have a say in development. First Nations communities in BC and New Brunswick have insisted that their treaty and land claims rights be respected for any development to proceed. Recent protests in New Brunswick by First Nations groups over exploratory drilling for gas reserves<sup>25</sup> clearly foreshadow what could be expected with pipeline developments.

FIGURE 6  
Historical and projected emissions in Canada, 1990-2020<sup>26</sup>



25 Daniel Schwartz and Mark Gollom, “N.B. fracking protests and the fight for aboriginal rights,” CBC News, October 19, 2013. At <http://www.cbc.ca/news/n-b-fracking-protests-and-the-fight-for-aboriginal-rights-1.2126515>.

26 Environment Canada, Environment Canada, Canada’s Emission Trends 2013, October 2013. At [http://www.ec.gc.ca/ges-ghg/985F05FB-4744-4269-8C1A-D443F8A86814/1001-Canada%27s%20Emissions%20Trends%202013\\_e.pdf](http://www.ec.gc.ca/ges-ghg/985F05FB-4744-4269-8C1A-D443F8A86814/1001-Canada%27s%20Emissions%20Trends%202013_e.pdf).

## 2.4 The Interests of Provincial Governments

If the proposed pipeline projects are not completed it would limit the future development of the oil sands as it would become harder to export the oil produced, and as a result the price differential would rise, potentially making new projects uneconomical. It is estimated that with cancellation of all of the proposed pipeline projects, there would be a loss of approximately \$2.1 trillion of additional Canadian GDP growth up to 2035, with 94 per cent of that GDP growth lost within the province of Alberta.<sup>27</sup>

In general there is also broad public support for the development of the oil sands and pipelines. According to a recent opinion poll, 63 per cent of respondents (70 per cent in Western Canada) agree that oil and gas development benefits Canada. Slightly fewer, 55 per cent (65 per cent in Western Canada), also agree that oil sands development benefits Canada. This support translates into support for pipeline development: 65 per cent of respondents support building a sea-to-sea network of oil pipelines. Support is even higher in Atlantic Canada, at 73 per cent, possibly because of the perceived economic and employment benefits from the pipelines.<sup>28</sup>

27 Afshin Honarvar, et al., Economic Impacts of New Oil Sands Projects in Alberta (2010-2035), Canadian Energy Research Institute, May 2011. At <http://www.ceri.ca/images/stories/CERI%20Study%20124.pdf>.

28 CROP, Canada and Its Natural Resources, prepared for The Federal Idea, the Canada West Foundation, the Mowat Centre and the Atlantic Provinces Economic Council, October 2013. At <http://strategicedgeinnovations.com/fichiers/crop-oct-2013-en.pdf>.



Clearly the interests of the federal government and Alberta and Saskatchewan, the two provinces with the largest oil sands reserves, are clear: increased revenues from taxes and royalty payments if the oil sands development increases. Employment would increase, further benefitting the economy.

If the Energy East pipeline is completed, New Brunswick, home to the Irving Oil refinery, the largest in Canada, would benefit economically, including new employment. This is particularly important for the Irving Oil refinery as it is moving from its traditional source of crude, from the North Sea and the Middle East, to North American crude. The train that was involved in the accident at Lac-Mégantic was destined for that refinery. From New Brunswick, it is also possible to sell oil overseas.<sup>29</sup>

With Energy East and the reversal of Line 9B, Quebec refineries will benefit from the supply of North American crude, in addition to jobs and investment during construction. However, Quebec environmentalists have already raised some concerns about oil sands crude coming into that province as part of the Line 9B reversal and the government has indicated it will undertake its own review separate from the NEB. The Quebec Environment Minister, Yves-Francois Blanchet stated in April: "Environmental groups have rightly raised questions. The kind of oil, what impact that oil will have on the pipeline, and reversing the flow, which will exert additional pressure on the pipeline—those are pertinent questions. They have to be examined as seriously as possible, and that's why we are doing consultations."<sup>30</sup>

Pipeline development in BC is a major political issue for the province. The Northern Gateway and Kinder Morgan's Trans Mountain pipelines projects were

29 Shawn McCarthy, "Where oil meets water: The final stop for the Energy East pipeline," *Globe and Mail*, August 31, 2013. At <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/when-oil-meets-water-the-final-stop-for-the-energy-east-pipeline/article14057475/?page=all#dashboard/follows/>.

30 Monique Beaudin, "Quebec to wade in on proposed Enbridge pipeline flow plan," *Calgary Herald*, April 29, 2013. At <http://www2.canada.com/calgaryherald/news/story.html?id=697ca151-de73-4d34-ae81-51f72a3160af>.

election issues in BC in May 2013. In a bid to quell dissent against her government and to position itself more popularly, Premier Christy Clark set out five conditions that must be met before her government would approve the Northern Gateway pipeline:

1. Successful completion of the environmental review process
2. A world-leading marine oil spill response program
3. A world-leading land oil spill response program
4. Successful negotiations with First Nations
5. A policy to ensure that BC receives fair fiscal and economic benefits for hosting the pipeline

A framework agreement has been signed between the two provinces that outlines in more detail how these principles will be operationalized. The biggest source of tension—the fifth condition, calling for a share of fiscal benefits—has been dealt with by Alberta agreeing not to object if BC applies a tax or toll on product flowing through the pipeline, although Alberta reiterated that its royalties were not on the table.

There continues to be a belief in BC that the province was being asked to assume all the environmental risk for little of the economic benefit. In fact, crude oil pipeline development is not a priority for the province. The BC government is primarily focused on developing liquid natural gas facilities, which will allow the province to export its own gas production, and it is unlikely to expend valuable political capital with environmentalists on other energy infrastructure projects.

However, the province is keeping its options open. While it filed a brief to the NEB opposing the Northern Gateway project, it did so based on how the project was configured at the time. Despite the framework agreement between the two provinces, the situation is fluid.

From a pan-Canadian perspective, BC's conditions and the framework agreement with Alberta raise significant

federalism and economic union issues. They explicitly raise the issue of what risks and rewards one province should bear in support of another on energy or other projects—and their interaction with Canada's fiscal arrangements. The conditions and the framework agreement have obvious implications for Ontario's interests and stakes in future pipeline development.



A large black pipeline is being laid in a field. The pipeline is laid out in a trench, with sections of the pipe visible. The background shows a green field and a line of trees under a clear blue sky. The text is overlaid on the image in white, bold font.

Ontario workers,  
companies, and consumers  
benefit from the current  
interprovincial and  
international network  
of pipelines with jobs,  
investment, revenue and  
access to energy.



# 3

## Setting Out Ontario's Interests and Stakes

The BC experience is instructive for Ontario. Many outside BC—particularly in Alberta and the federal government—have chastised BC for demanding compensation for pipelines that cross the province. And there is some validity to the point of view that in Canada we send dangerous goods across provincial borders every day and provinces do not expect to be compensated for this. It is part of the strength of our economic union.

On the other hand, for over three decades, the Alberta government and the oil sector have very strongly said that they expect to reap all of the economic benefits from oil sands development but that others will have to deal with the environmental risks. BC has made a legitimate point to Alberta: if you want other Canadians to support your economic development efforts, other provinces must see benefits, not just costs in the form of environmental risk, increased burden to reduce emissions, reputational damage internationally, among others.

Ontario sits at an important juncture in the evolving discussion over pipeline expansion. Geographically, Ontario already provides passage to pipelines to and from its refineries and to others in Quebec and potentially the Maritimes. It also links to the pipelines and facilities in the US throughout the Great Lakes-St. Lawrence region. Economically, the province benefits from pipelines in the form of construction, maintenance, property taxes and secure links to refining capacity. For example, the Sarnia area is home to four refineries employing over 1,600 people.

Environmentally, pipelines in Ontario cross big tracts of land and numerous waterways, potentially affecting drinking water as well as fish and wildlife habitats. New pipeline projects by Enbridge and TransCanada will need to pass a number of environmental tests to secure the social licence to operate.

Ontario has stated that it supports Alberta's desire to expand pipeline capacity. The following six areas need to be examined to determine Ontario's interests in the pipeline debate and how this support should manifest itself:

### ECONOMIC

What are the economic benefits for Ontario of more pipelines and how can it maximize these? These economic benefits could include immediate employment, longer term research and development around various energy and infrastructure technology and fiscal impacts.

### ENVIRONMENTAL

What are the local, regional, and national environmental issues associated with new pipeline development? These issues include traditional environmental concerns as well as broader concerns about greenhouse gas emissions and climate change.

## COMMUNITY AND SOCIAL

What local community impacts can be expected from expanded pipeline development and how can these be addressed?

## FIRST NATIONS

Are there opportunities for First Nations to benefit economically from pipeline expansion and how could this be undertaken?

## ENERGY

Where does Ontario fit into a broader national energy discussion and what role should it take in such a discussion? Is the federal government engaged with Ontario's energy issues around cleaner energy development—or is the federal government preoccupied with fossil fuel production only? Will Ontario energy consumers be hurt by particular pipeline projects?

## FEDERALISM

What is Ontario's responsibility for assisting in the development of other provincial economies? As part of Canada, Ontario has a role in ensuring that all regions of the country are able to prosper. But it is not reasonable for hydrocarbon-producing provinces to assume that other provinces should accept all of the costs and none of the benefits from pipeline expansion.

## 3.1 The economic benefits to Ontario

The economic benefits to Ontario of additional pipeline development are obvious, if modest and not yet fully quantified. Ontario workers, companies, and consumers benefit from the current interprovincial and international network of pipelines with jobs, investment, revenue, and access to energy. There are jobs in construction, maintenance, management, and supervision during the building phases. Regional and local economic spin-offs occur along the pipeline route. Security of new supply to refineries in Sarnia refiner is

important. Property tax and other rents applied by the provincial government will bring in new revenue. On the other hand, inflated and volatile exchange rates due to increased production from the oil sands will put continued pressure on the manufacturing sector.

The fiscal impacts are not all positive for Ontario. Increased production in the oil sands and increased resource royalties in Alberta and Saskatchewan would place increased burden on the Ontario taxpayer to fund inter-regional redistribution, given that resource royalties are not taxable by the federal government and hence not available for redistribution. There has been a lack of clarity offered to Ontario about the short and long-term economic benefits of expanded pipeline capacity.

## 3.2 Environmental and climate impacts

Environmental and climate impacts are also obvious, if not yet fully identified. These are local in terms of possible leaks and spills. Some 177 applications to the NEB were received by municipalities, First Nations, organizations, and individuals to participate in the hearings of the Line 9B project. And opposition to the project from communities and the public has been increasing in Ontario. Environmental protesters have halted NEB hearings in Montreal and Toronto. In Ontario, only two organizations—the Ontario Petroleum Institute and the Communications, Energy and Paperworkers Union—have come out directly in favour of the project.<sup>31</sup>

Environmental concerns center on the heavier bitumen being shipped, with some saying it is more corrosive to pipes and more prone to leaks and spills. Environmental liability issues are typically shared between companies and governments in some fashion. The Great Lakes region is a critical ecosystem and any environmental

<sup>31</sup> Jessica McDiarmid, "Enbridge pipeline: Protesters converge on Line 9B hearings," *The Toronto Star*, October 18, 2013. At [http://www.thestar.com/news/gta/2013/10/18/enbridge\\_pipeline\\_protesters\\_converge\\_on\\_line\\_9b\\_hearings.html](http://www.thestar.com/news/gta/2013/10/18/enbridge_pipeline_protesters_converge_on_line_9b_hearings.html).

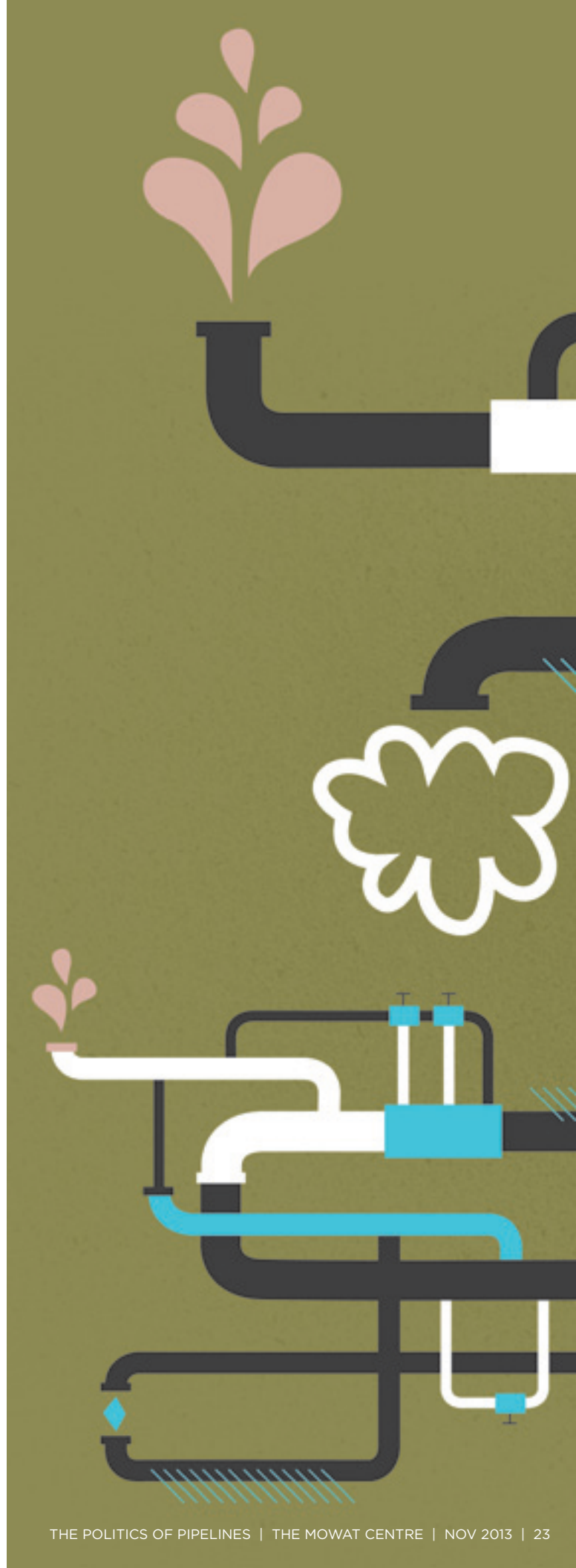
damage there could be significant. With regard to the proposal to reverse Line 9B, the Ontario government has asked the NEB to require Enbridge to have a third-party assessment of the pipeline's safety measures and to raise the amount of insurance that is required to \$1 billion from the current level of \$685 million.<sup>32</sup>

The broader—and newer—environmental concern is the damage done to the climate due to increased production of higher carbon intensive oil from the oil sands. New pipeline capacity and more production from the oil sands would increase Canadian emissions. Internationally this could affect Ontario in future climate change negotiations. And, as noted, it is Ontario that has been assuming the lion's share of responsibility for reducing emissions—with no acknowledgement from the federal government—while it has been Alberta's oil sands that have been accounting for Canada's growth in emissions (see Figure 1).

### 3.3 Community

Community and social acceptance issues are present for any major energy and pipeline project. These range from concerns over product spills and leaks to degradation of natural habitat and unsightly development. Job and economic benefits for local communities are also issues. The Ontario government has recently given more say and authority to municipalities in the siting of renewable energy facilities, showing how local concerns can influence broader energy policy directions. It is clear from protests around pipeline and other energy projects in Ontario that developers need social licence if projects are to be successfully implemented. It is likely the case that a more strategic use of Community Benefit Agreements as part of pipeline expansion would help assure residents of affected communities that the benefits of new infrastructure will be shared.

<sup>32</sup> Jessica McDiarmid, "Enbridge pipeline: Ontario demands third-party scrutiny of Line 9B proposal at Toronto hearings," *The Toronto Star*, October 17, 2013. At [http://www.thestar.com/news/gta/torontopipeline/2013/10/17/enbridge\\_ontario\\_pipeline\\_plan\\_continues\\_to\\_draw\\_criticism.html](http://www.thestar.com/news/gta/torontopipeline/2013/10/17/enbridge_ontario_pipeline_plan_continues_to_draw_criticism.html).







## 3.4 First Nations

First Nations concerns may prove very contentious due to ongoing land claim issues and broader Aboriginal issues across Canada. Recent protests by First Nations communities in BC and New Brunswick over energy projects clearly illustrate what can be expected. The government and developers have a duty to consult First Nations. To be successful, projects must have the social license from First Nations communities, whose concerns may be different than other communities. Ensuring agreement from First Nations may require commitments around tangible benefits to communities.

## 3.5 Energy issues

Energy issues are important to Ontario, and the government's target of closing its coal-fired power plants has been a large contributor to reducing the growth in carbon emissions in Canada. However, as a hydrocarbon-importing province also envisioned as a transit province, Ontario's interests are different from hydrocarbon-producing provinces.

TransCanada's Energy East project, which would involve the partial conversion of a 50-year-old natural gas pipeline to carry crude oil, will affect Ontario consumers. While the availability of shale gas from the US has meant that the natural gas pipeline from Alberta is not used as much as it had been, it still provides for peak demand in winter and provides important infrastructure to ensure gas is available to meet demand.<sup>33</sup>

Under the current proposal, natural gas capacity will be reduced from the Mainline east of North Bay, which will affect consumers and businesses in this region. TransCanada is currently proposing that natural gas consumers in Ontario pay for new pipelines, even though they have already paid for the existing pipeline. This proposal merits a public process in Ontario.

<sup>33</sup> Jeff Lewis, "Gas distributors sour over TransCanada's mainline conversion plan," Financial Post, July 18, 2013. At [http://business.financialpost.com/2013/07/18/gas-distributors-sour-over-transcanadas-mainline-conversion-plan/?\\_lsa=8be2-a50e](http://business.financialpost.com/2013/07/18/gas-distributors-sour-over-transcanadas-mainline-conversion-plan/?_lsa=8be2-a50e).

Ontario has indicated that it is intent on moving to a clean energy future—a goal that can be seen as competing with continued fossil fuel development. It is therefore important that the federal government also support clean energy projects with similar incentives as it has done for fossil fuel projects.

Perhaps more interestingly, Ontario is home to Canada's most important science and technology R&D work. If Canada is truly interested in a national energy policy that involves more than digging stuff out of the ground for export, Ontario firms should be incorporated into a broader energy technology strategy.<sup>34</sup> This could provide longer term economic benefits in Ontario and Canada by developing clean technology products and services in areas such as safe transport and environmental remediation.

## 3.6 Federalism

Federalism is important for many issues in Canada and the issue of pipeline development merely surfaces many familiar tensions. The nature of Canada's economic and political union are very much a part of the pipelines debate today. Ontario has an interest in supporting a strong, efficient economic union for the benefit of Ontarians and all Canadians, but also has an interest in ensuring a fair and open consideration of environmental and social concerns take place that realistically recognizes where benefits and costs are accruing.

34 See: Tatiana Khanberg and Robert Joshi, *Smarter and Stronger: Taking Charge of Canada's Energy Technology Future*, Mowat Centre, September 2012. At <http://mowatcentre.ca>.



An aerial photograph of a large industrial facility, likely a refinery or chemical plant. The image shows a complex network of pipes, storage tanks, and buildings. Several tall smokestacks are visible, each emitting a thick plume of white smoke that rises into the sky. The facility is situated near a body of water, possibly a river or lake, which is visible in the upper left corner. The overall scene is one of intense industrial activity.

The Ontario government has made it clear that it sees a national interest in oil and gas development and is committed to supporting Alberta's ambitions.



# 4

## Conclusion

The Ontario government has made it clear that it sees a national interest in oil and gas development and is committed to supporting Alberta's ambitions. But it is now up to the federal government, the Alberta government, and the governments of other hydrocarbon-producing provinces to likewise see the national interest and ask how pipeline development can produce benefits across the country. With up to \$2.1 trillion in GDP growth—and an estimated \$455 billion in tax and royalty revenue for Alberta alone—at stake from now to 2035, it is surprising that the Alberta and federal governments have been so uninterested in dialogue with partners and in enlisting allies.<sup>35</sup>

The Alberta government initially reacted with open hostility to BC's five conditions and although agreement on a framework has been reached by the two provinces, it is but a first step. Unless Alberta and the federal government are more prepared to find ways of sharing costs and benefits more equitably, it is unlikely that pipeline projects will reach fruition.

What approaches can Ontario take? Looking into the six areas that Ontario needs to consider, concerns about pipelines fall into two categories: issues concerning a particular pipeline project, and concerns about the effects of increased hydrocarbon development more broadly.

Concerns about risks and benefits of particular projects can be alleviated through better processes and agreements with provincial and municipal governments, and with First Nations. Regardless of whether regulators approve projects, the public and communities will have a lot of power over whether projects move forward. Even if they cannot stop development, they can tie up any project in legal disputes for years, delaying completion and increasing costs.

On the other hand, if the public and communities are part of a public engagement process, more explicit benefits could be surfaced and agreed to, in exchange for granting social licence and from being a willing host and transit way. Demonstrable economic benefits in the short and long term are necessary. Agreements with First Nations on benefits are crucial. Ensuring that Ontario consumers aren't made to pick up the tab is also necessary.

Proponents also need to demonstrate to all involved that safety plans meet the highest standards. It is impossible to eliminate risk entirely, but recent oil spills and other disasters due to the transportation of hydrocarbons have raised serious concerns in many communities. Public trust must be earned and renewed on a daily basis.

Broader concerns about the effects of hydrocarbon development in Alberta and Saskatchewan will require more substantial government action. The vast majority of the economic benefits from oil sands development remain in the hydrocarbon-producing provinces, although other provinces do receive some economic benefit. Reforms to Canada's

35 Adrian Morrow, "Wynne backing Redford on national energy strategy," *Globe and Mail*, October 25, 2013. At <http://www.theglobeandmail.com/news/national/wynne-backing-redford-on-national-energy-strategy/article15066759/>.



fiscal arrangements to recognize the growth of fossil fuel induced regional fiscal imbalances are one way forward.<sup>36</sup> Recycling more revenue from hydrocarbon production into clean technology research and resilient infrastructure is another.

More importantly, under the now widely recognized principle of 'polluter pays,' those increasing their emissions and profiting from it should also be more responsible for the environmental costs of the oil sands. BC, Ontario and Quebec have all enacted policies to reduce carbon emissions, and BC and Quebec have introduced carbon pricing. Soon, the largest emitter of carbon in Canada will be the oil sands. If Canada is to meet its international obligations to reduce emissions, it is not equitable or reasonable in a federation like Canada to expect the burden of emissions reduction to be assumed by the non-hydrocarbon provinces only.

The best method for ensuring that the costs to reduce carbon emissions are spread more equitably is through a Canada-wide carbon pricing system, either a cap-and-trade system or a tax. This would ensure that all provinces and all companies are required to pay for their own emissions, and would allow provinces or companies that significantly reduce their emissions to see some benefit. It would also allow the federal government to introduce measures to meet its international carbon reduction commitments, and, if it can be linked to global or at least North American systems, could provide trade advantages.

Pipeline politics in Canada are going to intensify as Alberta and other oil-producing provinces look for ways to get their product to markets. Without better transportation for oil, development of new oil fields will slow down, and governments will see their revenues from taxes and royalties decline. In fact, it is already happening. The Ontario government has made it clear that it supports Alberta's ambitions. At the same time, oil-producing provinces cannot expect other provinces

to accept all the cost and acquiesce to new, potentially risky, pipeline projects without receiving greater economic and social benefits.

Perhaps more importantly, addressing climate change is important to Ontario. The need for reducing emissions globally is well known and the facts are well established. As it stands, every sector and region of the country other than Alberta and the oil sands will be expected to carry the burden of emission reductions, while Alberta and the oil sands continue to negate all other efforts across the country, and profit significantly from the arrangement. This is not a functional or sustainable arrangement in a federation.

There is an elegant path forward. It includes expanded pipeline capacity, but within the context of a price on carbon and increased investment in the development of clean energy technology and products.

<sup>36</sup> Matthew Mendelsohn, *Back to Basics: The Future of the Fiscal Arrangements*, Mowat Centre, December 2012. At <http://mowatcentre.ca>.

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