



Briefing Paper: The Dying Tar Sands Industry and Its Pipe Dreams

March 14, 2017

Summary:

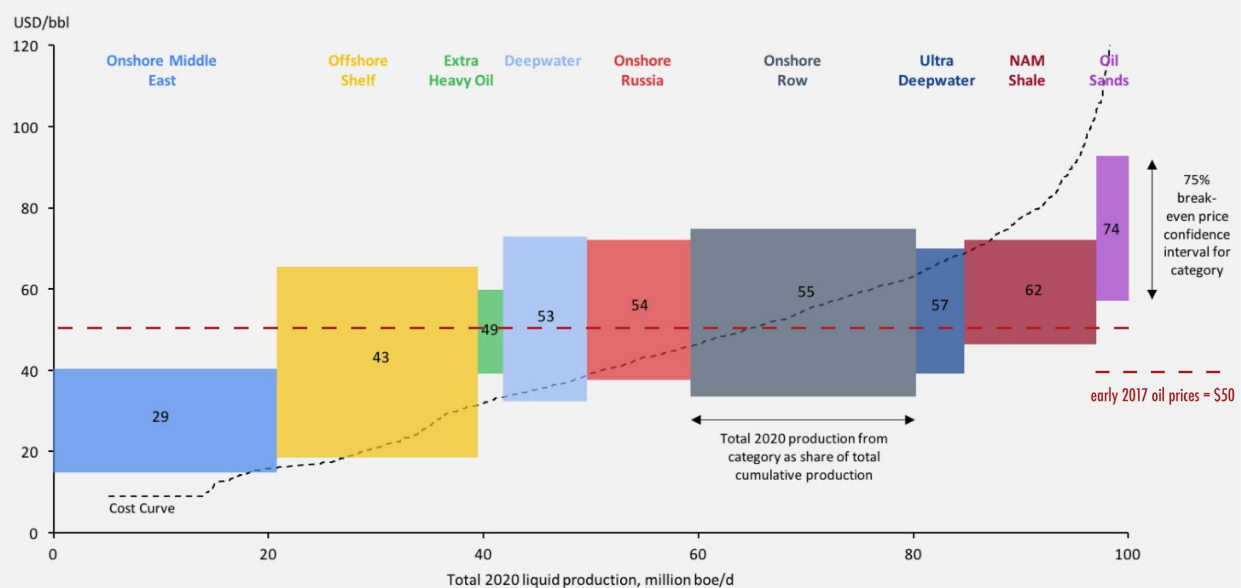
Because of high extraction costs and low oil prices, the mining of the Alberta Tar Sands is a rapidly dying industry. Many companies are withdrawing their investments. Those that remain are borrowing against our children's future, taking on massive amounts of debt to pay false dividends to shareholders and prevent them from fleeing. Despite an industry forecast of increased production that justifies 1 new pipeline carrying tar sands out of Canada in the next 4-5 years, a total of 4 new pipelines are currently proposed. Every one of them must cross tribal lands, and every one of them faces bold resistance. At the same time, Enbridge's proposal to simply abandon its old, crumbling Line 3 pipeline risks setting dangerous precedent, and raises serious questions about who will be left holding the bill for this industry's slow painful death and stranded assets. Now is the time for tribal governments to come together and take bold action to protect our territories and the natural and cultural resources our future generations will depend on.

A Dying Industry:

Compared to conventional oil, tar sands crude is a lot more expensive to extract. New oil development in the tar sands costs over \$80/barrel (bbl). But since the end of 2014, oil prices have only ranged between \$30 and \$60/bbl, with current prices around \$50/bbl. So tar sands extraction is simply not economically viable in the long term. If gasoline prices don't return to \$3.00-\$3.50/gal (equivalent to crude oil at \$70-\$85/bbl), the oil industry will go bankrupt - it's that simple. And tar sands producers will go first.

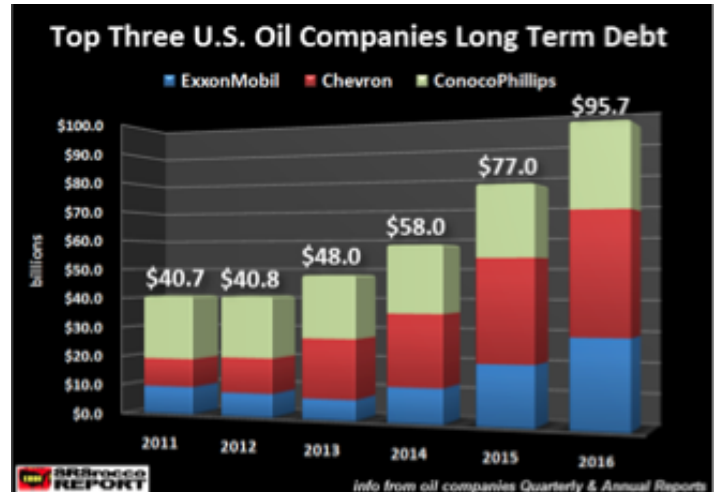
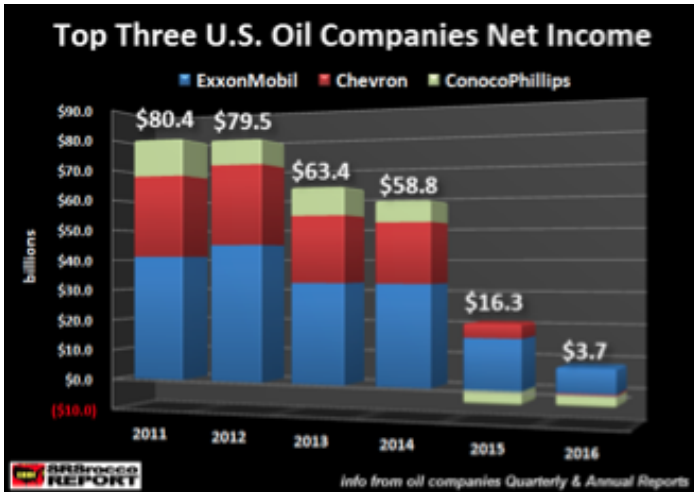
Tar Sands are the Most Expensive Type of Oil to Produce

Supply Cost Interval by Category



Note: Number in boxes equals average break-even price for each category, USD/bbl
Source: Rystad Energy research and analysis

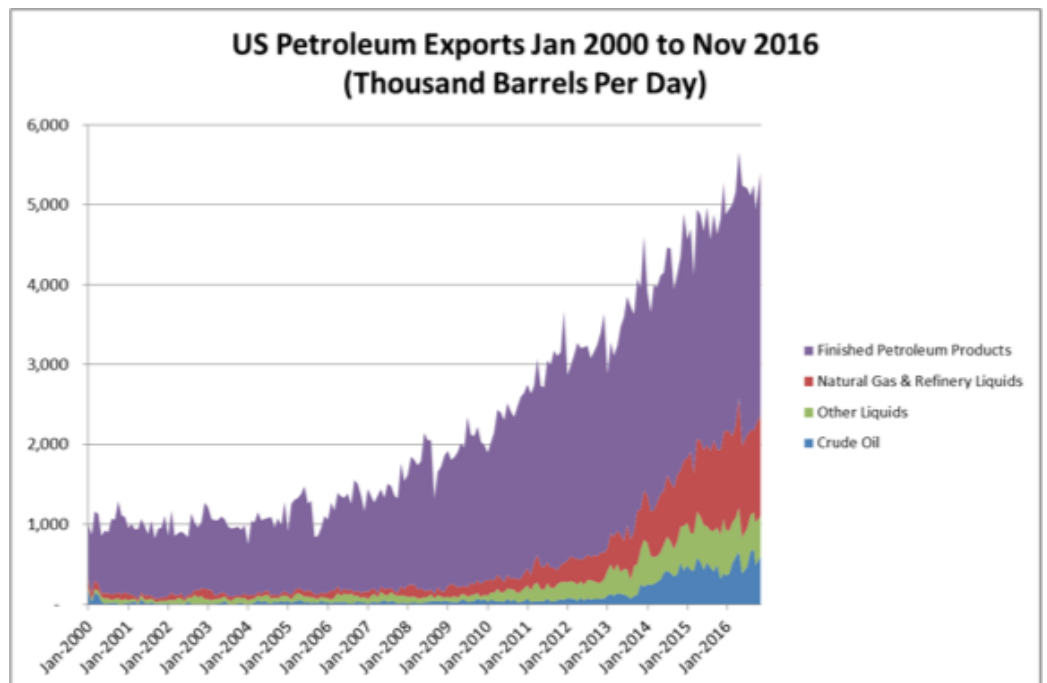
As a result, major oil companies have been [withdrawing investments from the tar sands steadily](#) over the past two years. Many tar sands companies have gone bankrupt, and [an early 2016 Deloitte report](#) estimated that about one third of all oil producers were at risk of bankruptcy. The 3 largest in the world - Exxon, Chevron, and Conoco/Phillips - have posted dramatic declines in income, and dramatic increases in long-term debt. In other words, Big Oil is borrowing in order to pay its shareholders and keep them from running away. This is speculation against our children's and grandchildren's futures.



No End In Sight:

These companies cannot keep piling up debt forever, and the price jump they need to stay afloat doesn't seem likely. Market demand is dropping in the United States, down 6% from a 2007 peak (and dropping rapidly in Minnesota, down 19% from a 2004 peak). The largest emerging markets in the world - India, China, Brazil, etc - are developing renewables and electric cars at accelerating rates. Meanwhile, working people continue to get relatively poorer, and many economists forecast an economic recession soon. All of these factors decrease demand, which in the short term keeps prices low. Also, OPEC producers can manipulate oil prices in order to maintain their market dominance by pricing out higher cost shale and tar sands producers.

So if US demand is declining, then where is all this North American oil going? It's being exported overseas. The mining of the Alberta Tar Sands has nothing to do with energy independence. In fact, it was this steep rise in exports that flooded global markets with a glut of oil, which is part of what is keeping prices so low.



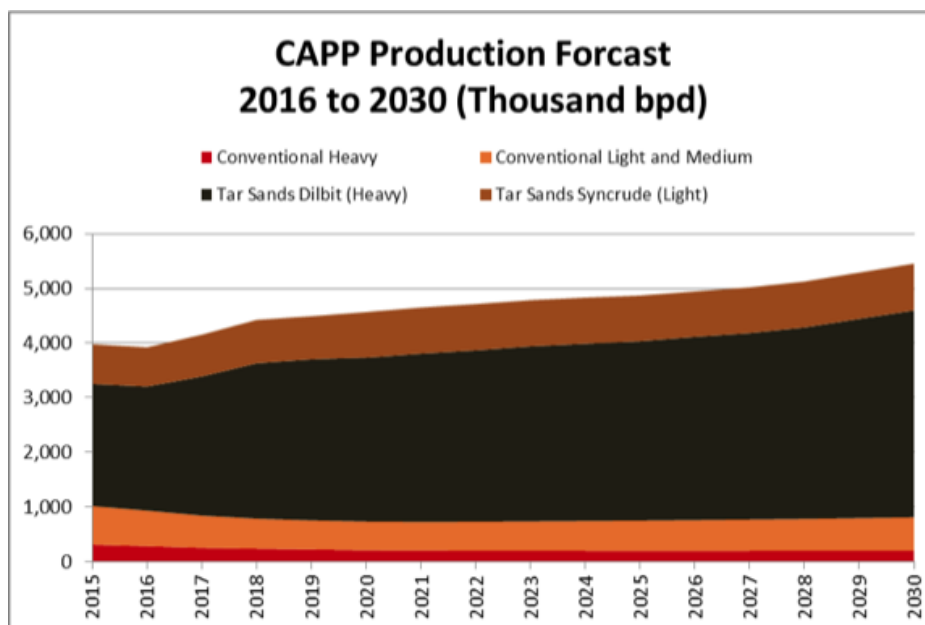
Why Build 4 Pipelines When One Is Enough?

Despite the bad economics, four new pipelines are proposed to transport tar sands oil out of Canada by 2019-2020, with a total additional capacity of over 3.4 million barrels per day:

- Line 3 "Replacement" (Enbridge) – from 390,000 to 900,000 bpd
- Trans Mountain Expansion (Kinder Morgan) – from 300,000 to 900,000 bpd
- Keystone XL (TransCanada) – up to 900,000 bpd
- Energy East (TransCanada) – 1,200,000 bpd



However, the Canadian Association of Petroleum Producers forecast only a 644,000 barrel per day increase in production by 2020, a small fraction of the proposed 3.4 million bpd of additional pipeline capacity. This means that the customers for these projects themselves only see economic justification for one of these 4 proposed new pipelines, even after ignoring all the social and ecological costs. Indeed, Enbridge CEO Al Monaco [admitted last week](#) that only 2 of the pipelines are needed (the Trans Mountain Expansion is scheduled to start construction before Line 3).



Ojibwe Territory is Ground Zero

Enbridge's new Line 3 is proposed to transport tar sands oil over 1000 miles, from Hardisty, Alberta to Superior, Wisconsin, through the heart of Anishinaabe treaty territory. With a cost of \$7.5 billion, Line 3 is [the largest project in Enbridge's history](#), and would be one of the largest crude oil pipelines in the continent, able to carry up to 915,000 barrels per day. Enbridge calls it a "replacement" because they already have a Line 3 pipeline in their mainline corridor. But this is a new pipeline - it would be larger, have more than double the capacity, and establish an entirely new corridor through Northern Minnesota, carrying a categorically different type of oil. And to top it all off, Enbridge simply wants to walk away from the old, crumbling Line 3 pipeline and abandon it in the ground.

Unfortunately, there is no federal or state regulation to speak of that would prevent tribes and landowners from the extreme financial and ecological liability this poses.

A recent [report by the National Academy of Sciences](#) has shown that tar sands behave completely differently than conventional oil when spilled into waterways and wetlands, and that we basically don't know how to clean it up. It is among the dirtiest fuels on the planet, and produces more greenhouse gases than any other type of oil.

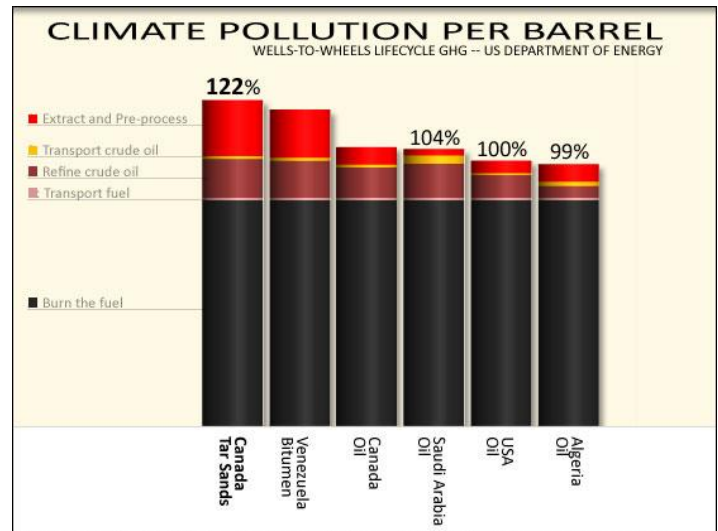


Chart by Barry Saxifrage at VisualCarbon.org and VancouverObserver.com. Source: US DOE National Energy Technology Laboratory "An Evaluation of the Extraction, Transport and Refining of Imported Crude Oils and the Impact on Life Cycle GHG Emissions"

Walking the Enlightened Path

As Trump and his friends unroll their plans to make the US oil industry great again, in part by building pipelines that are not needed and likely will never be needed, it is critical that we articulate an alternative. The global energy transformation is already upon us. Studies by the Energy and Resources Lab at the University of California at Berkeley [have shown](#) that renewable energy sectors generate more jobs per unit of energy delivered than the fossil fuel sector. Tribal governments are uniquely positioned to help lead the graceful transition to a clean energy economy. Now is the time to take action to protect our future generations.

The Beginning of the End

