



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

BACKGROUND

Oil Sands Economic Impacts Across Canada

April 2008

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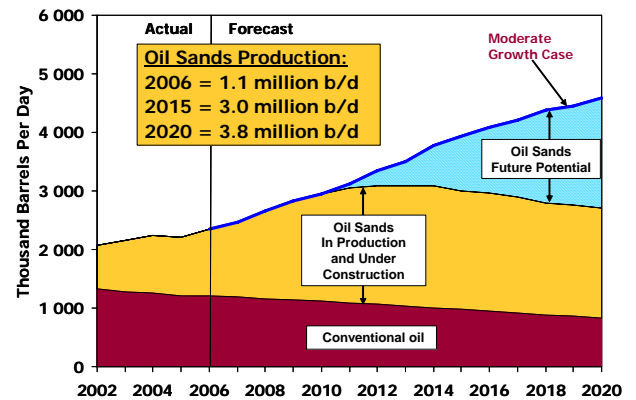
The oil sands sector in Canada has witnessed record levels of investment in the past decade. Projects under construction, or in planning, could generate billions of dollars of additional investment in the coming decades. The expenditures, employment, government revenues and economic impacts of these investments are not only in Alberta but also in Ontario, Quebec and the rest of Canada.

In 2005, Canadian Energy Research Institute (CERI) published a multi-client study titled Economic Impacts of Alberta's Oil Sands that assesses the impact of the investment at the local, provincial, national and international level. Based on this study, the Canadian Association of Petroleum Producers (CAPP) has developed this background to answer some fundamental oil sands questions.

What is Alberta's oil sands production potential?

Oil sands production has grown four-fold since 1990 and exceeded 1.2 million barrels per day (b/d) in 2007. A recent CAPP forecast predicts that oil sands production by 2015 will reach 3.0 million b/d.

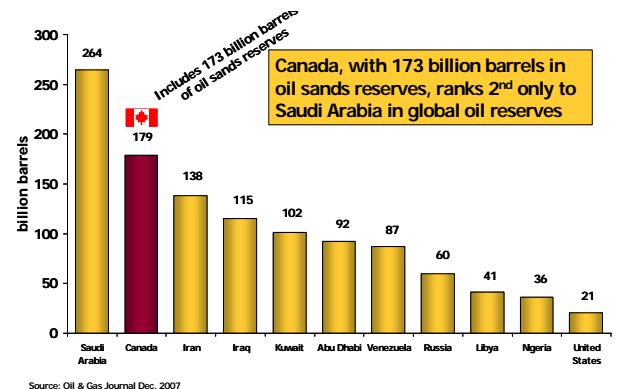
As conventional oil reserves continue to mature in Western Canada, the share of production from oil sands will be of growing significance. Today, oil sands production accounts for one out of every two barrels of supply in Western Canada. By 2015, the oil sands share of production will rise to three out of every four barrels.



Does Alberta have sufficient oil reserves for future generations?

Alberta's oil sands reserves are estimated at 173 billion barrels deemed economically recoverable with today's technology. Those reserves place Canada second behind Saudi Arabia in the world ranking of crude oil reserves by country.

At current production levels, reserves will sustain production of 3.0 million b/d for over 150 years.

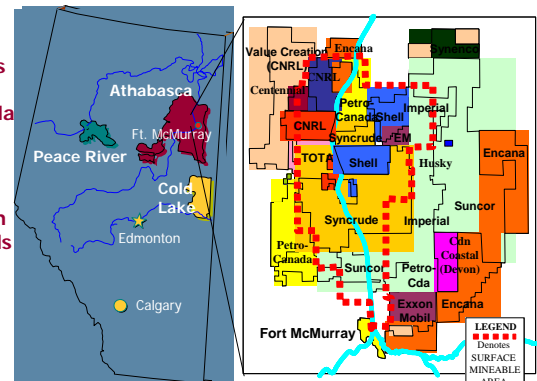


How much will be invested in Canada to develop the oil sands?

Alberta's first oil sands leases were issued in the late 1950s and today oil sands leases are owned by numerous companies that are actively producing or in planning production.

Over the last 10 years, oil sands investment far surpassed earlier projections. The CERI study assumes \$100 billion in investment over the 2000-2020 period, a level that is generally consistent with CAPP's forecasts. From 1997 to 2006, total oil sands investment was \$59 billion and CAPP forecasts a further \$80 billion of investment by 2010.

- Oil sands production now exceeds 1.2 million barrels per day
- \$59 billion built from 1997-2006
- \$80 billion in new oil sands projects in 2007-2010

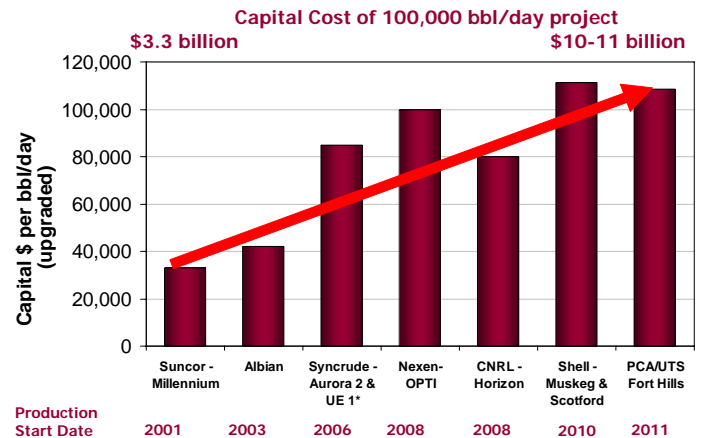


Source: Oil & Gas Journal Dec. 2007

Are production and supply costs competitive?

Oil sands costs vary with the type of production process. Oil sands projects are capital intensive, mainly driven by global steel prices and construction costs. Due mainly to increases in these costs, integrated oil sands projects that cost \$3.3 billion to construct in 2001 now cost over \$10 billion for a similar project.

Once built, the major operating costs are for natural gas (or other fuel sources) and maintenance.



*Syncrude includes base plant quality improvements and power

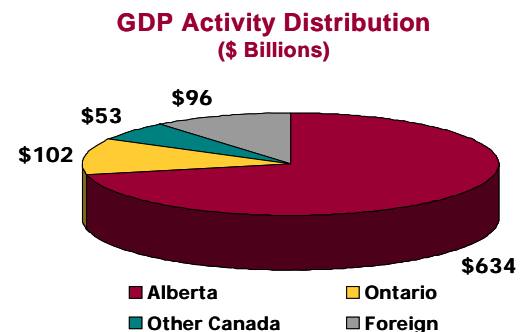
How does oil sands development impact the rest of Canada?

Developing Alberta’s oil sands provides benefits for all of Canada. The goods, materials and services used to construct and operate in-situ oil sands projects, mines and upgraders come from across Canada. Many of the components —, such as tires, trucks, gauges, valves, pumps, etc. — are produced in the industrial regions of Eastern Canada.

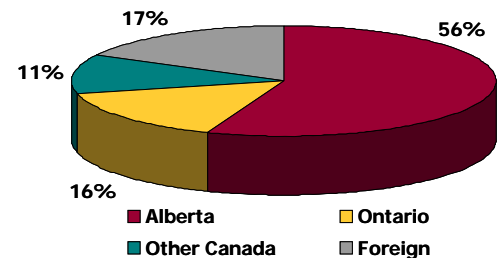
The CERI study provides a comprehensive analysis of these benefits and measures these impacts in terms of dollars and jobs. Using expected investment profiles, the study measures impacts based on:

- gross domestic product;
- employment and labour income; and
- revenues to government.

Much of the analysis includes assessing these benefits on a relative basis. The impact is measured in not only millions or billions of dollars, but also as the percentage of the impact. For example, the study found 44 percent of the employment generated by oil sands investment is outside of Alberta, with 16 per cent of the jobs in Ontario.



Employment Impact Distribution



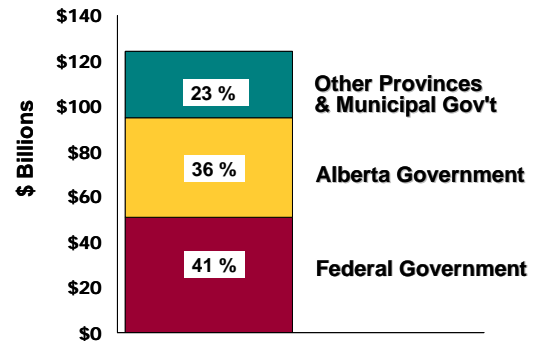
Do governments outside Alberta receive benefits from oil sands?

A large portion of the economic spinoffs from oil sands development relates to employment that is generated outside Alberta. The impact of the income associated with people who make the materials, goods and services used by the oil sands sector generates significant taxes to other governments in Canada.

The CERI study shows the largest percentage of the government revenue (taxes and royalties) accrues to the Federal Government, not Alberta. Over the 20-year study period, CERI estimates the total government revenues at \$123 billion dollars (income tax, royalties, corporate tax, provincial sales tax, GST, property tax, etc.) as a result of investment and development in oil sands.

The government shares of the revenues are: federal 41%, Alberta 36%, and other governments and municipalities combined 23%.

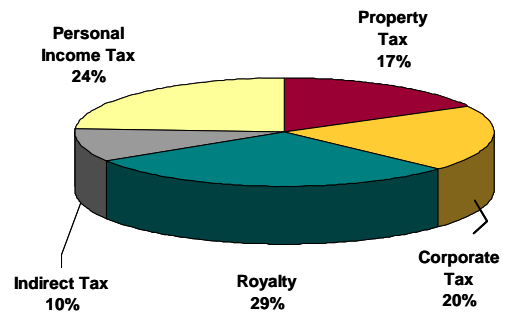
Government Revenue Distribution



Doesn't Alberta receive the largest share of the government revenue?

Over the 20-year time horizon of the CERI study, the impact of the employment multiplier effect from the incomes—and the goods and services the people purchase—generates substantial tax-related revenue, especially for the Federal Government. Alberta has a comparatively low overall tax structure (low tax rate, no provincial sales tax) which reduces Alberta's tax impact, of course, benefits Albertans.

Total Government Revenue Distribution



Conclusion

Alberta's oil sands sector is currently underpinning significant economic growth across the country and has the potential to continue to do so over the next number of decades. The billions of dollars to be invested in oil sands and the economic and employment benefits that will result are important not only to the economic prosperity of Alberta, but all of Canada.

However, while the opportunity and benefits are large, there are a number challenges to be met in the months and years to come, if the full potential for oil sands development is to be realized.

- Environmental sustainability – Development of the oil sands with its economic benefits can only be achieved if done in an environmental sustainable manner. There are important global environmental issues such as greenhouse gas emissions and regional and local issues such as land use, reclamation, water use and air quality. All of these aspects are regulated by governments but industry clearly recognizes the importance of environmental protection and its responsibility.
- Infrastructure – Oil Sands development could be constrained because the pace of growth may exceed the underlying infrastructure related to roads, housing, municipal services, etc. The Alberta government, the Regional Municipality of Wood Buffalo and industry are discussing these issues. Hopefully, solutions will be forthcoming to overcome current constraints.
- Workforce - It is equally critical to ensure there is an adequate workforce of qualified trades, technical and professional people to support the construction and ongoing operations of the oil sands developments. Strong economic growth only compounds the issues that make it difficult to attract workers to Alberta and Ft. McMurray, in particular.
- New Markets and Pipelines - New oil sands supplies require new markets and pipelines to reach these markets. Pipeline projects require time to develop and construct. The market is responding to the looming transportation needs as several pipeline projects are proposed to deliver oil sands crudes to new markets, over the next five and 10 years.