



Tar Sands & Canadian Economic Diversity: Stresses & Opportunities

panel 25



**Institute for Energy Economics
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IEEFA.org

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CANADA PROVINCE MAP

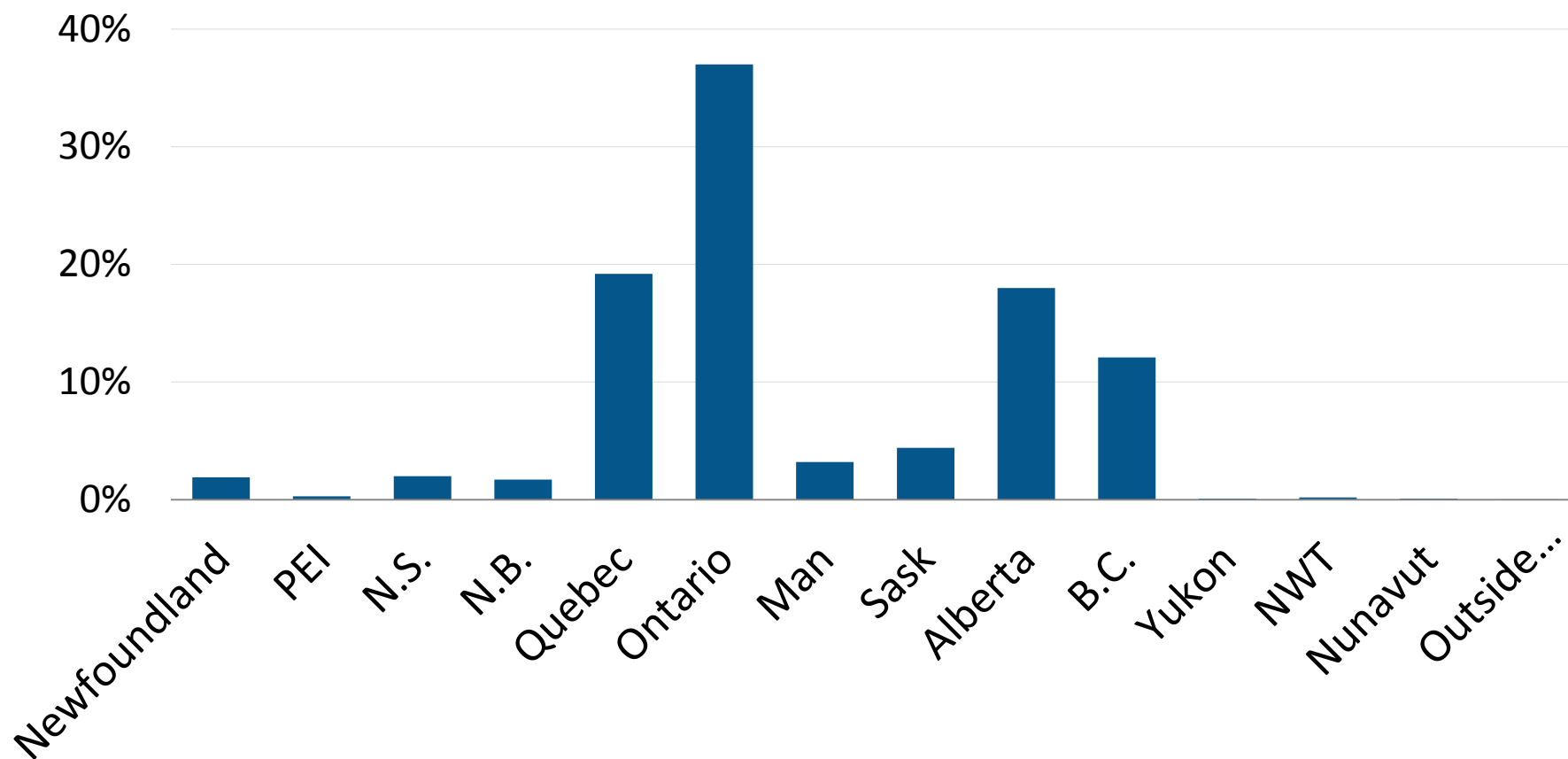


ECONOMICS OF TAR SANDS

Canadian Provincial GDP

Alberta Tar Sands Dependent; Quebec/Ontario – manufacturing/diverse

Canadian 2013 GDP: Quebec, Ontario, Alberta, British Columbia – Four Largest (86%)



2014 Canadian GDP

Industry	By % of Nation GDP
Real Estate	13%
Manufacturing	11%
Mining Oil and Gas	8%
Construction	7%
Finance and Insurance	7%
Health Care	7%
Public Administration	7%
Wholesale Trade	6%
Retail Trade	5%
Professional, Services	5%
Oil Sands (Pt of Mining, Oil & Gas)	2%

Benefits (+) and Costs (-) Strong Tar Sands Industry

- + Oil Industry Grows
- + Alberta Thrives (26% GDP)
- + Govt. Revenues Up
- + Capital Spending Rises
- + Strong currency – cheap imports and travel
- Diminishes Diversification
- Crowds out other exports
- Drives up business costs
- Distorts value of currency
- Govt. spending rises unrealistically

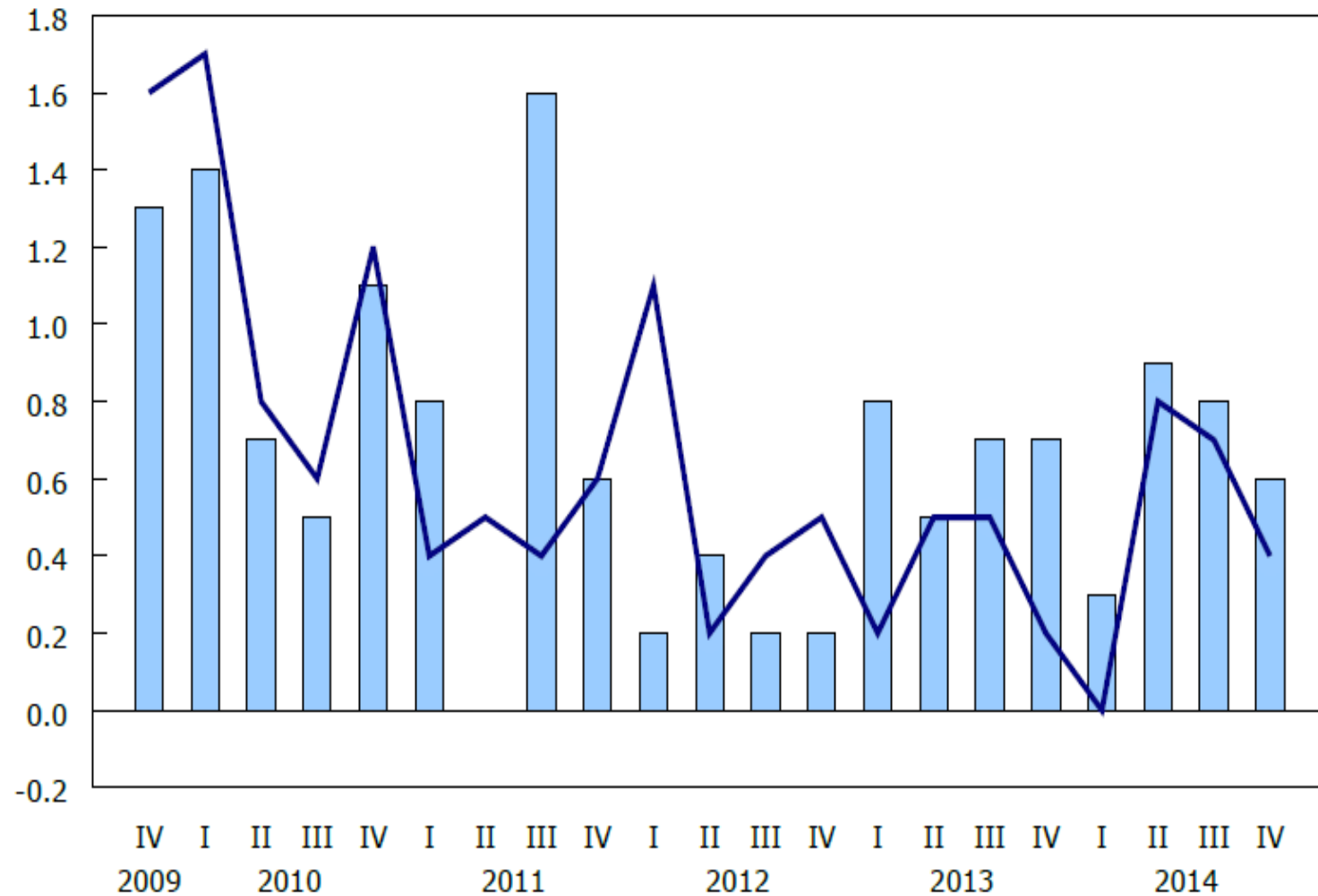
BROADER ECONOMIC DYNAMICS

Current Trends & Nature of Dilemma

- Major Price Drop for Oil Sands and oil generally
- GDP still grows slow, but exceeds expectations
- Oil Sands grows in production
- Oil Sands negative for GDP – price decline, profits lag, export decline
- Manufacturing shows signs of improvement, maintains growth – despite international competition

Gross domestic product and final domestic demand

quarterly % change, chained (2007) dollars



Real gross domestic product at market prices

Chart 2
Production by type of crude oil

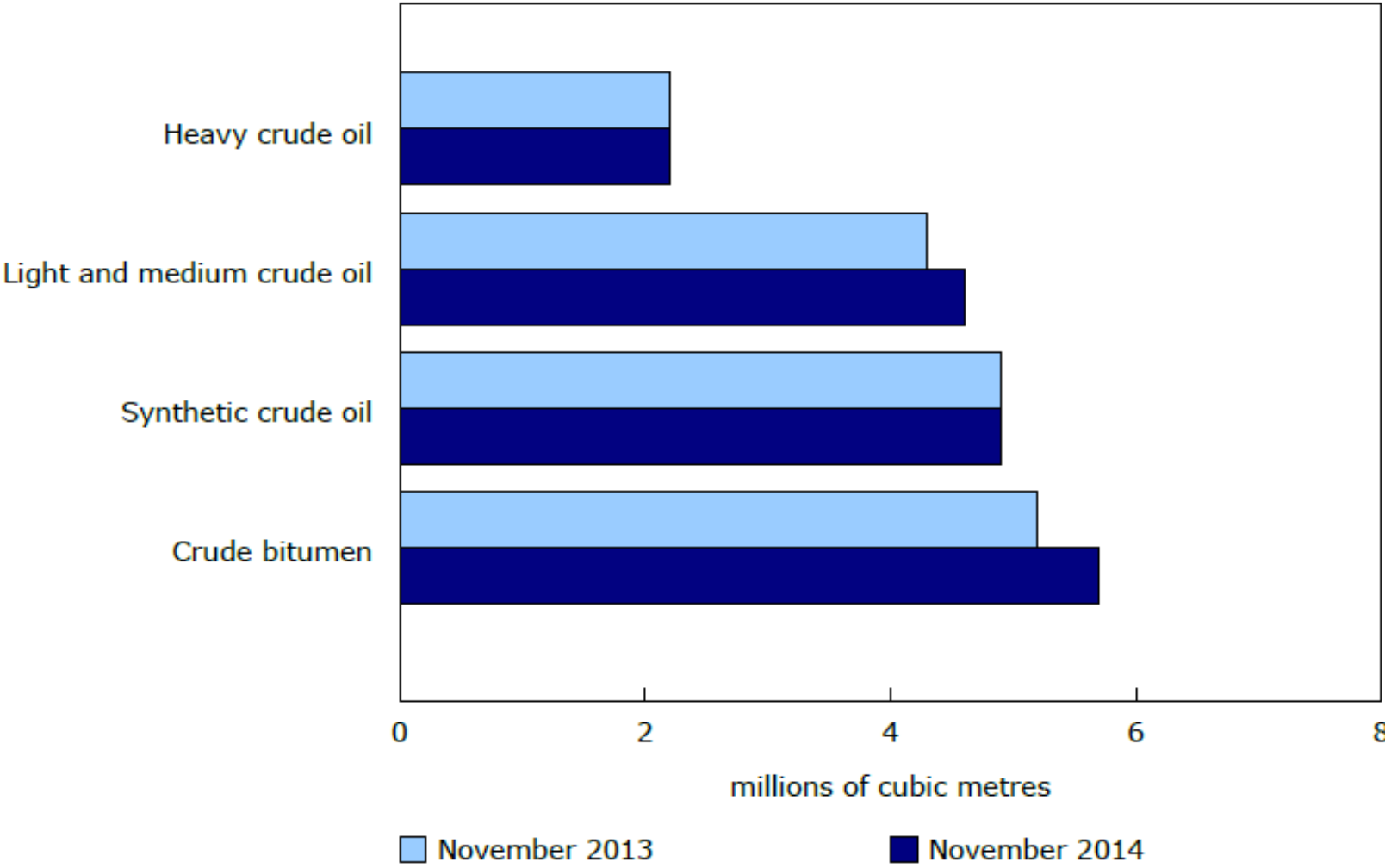


Chart 5

Main industrial sectors' contribution to the percent change in gross domestic product, December 2014

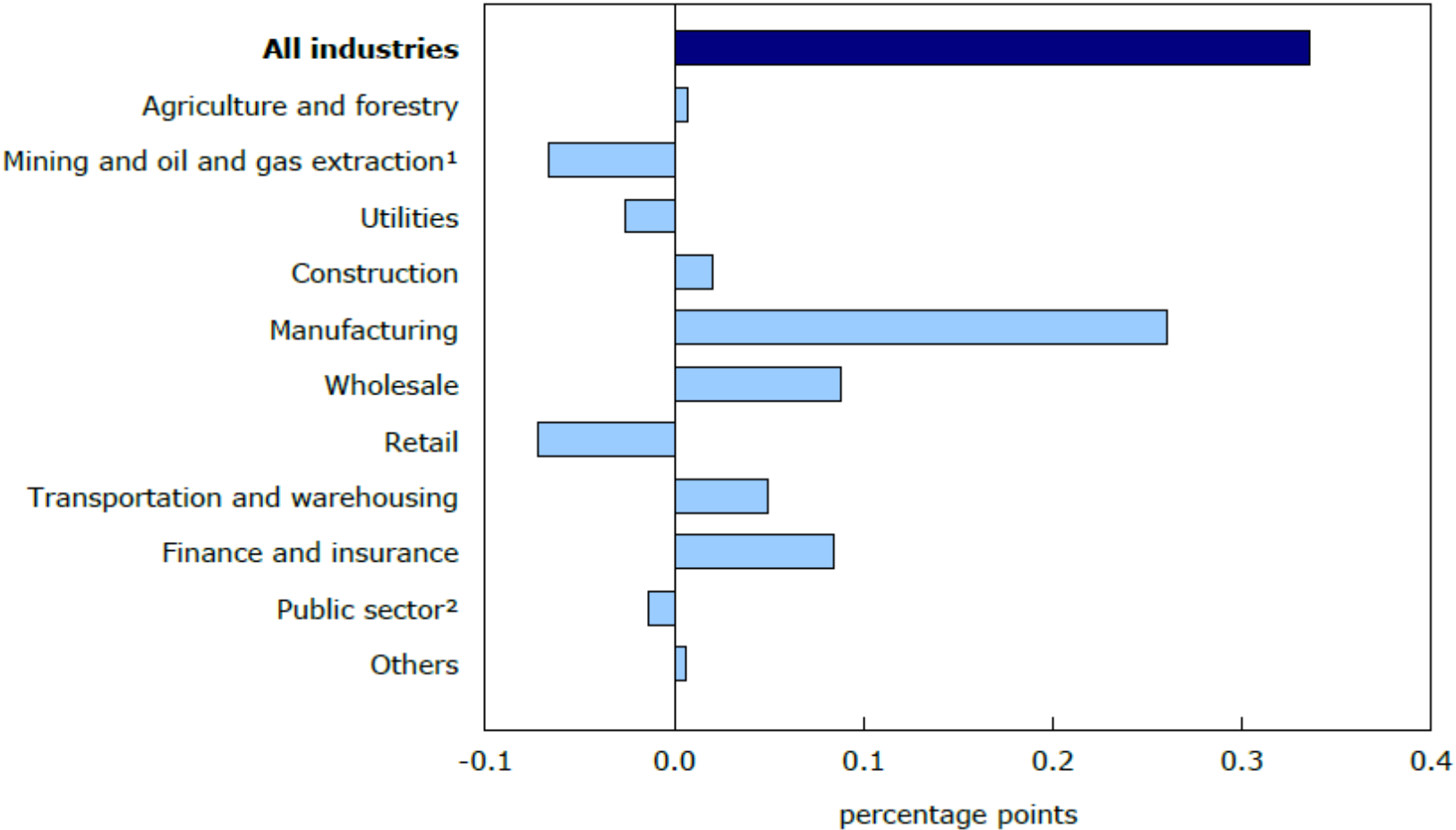
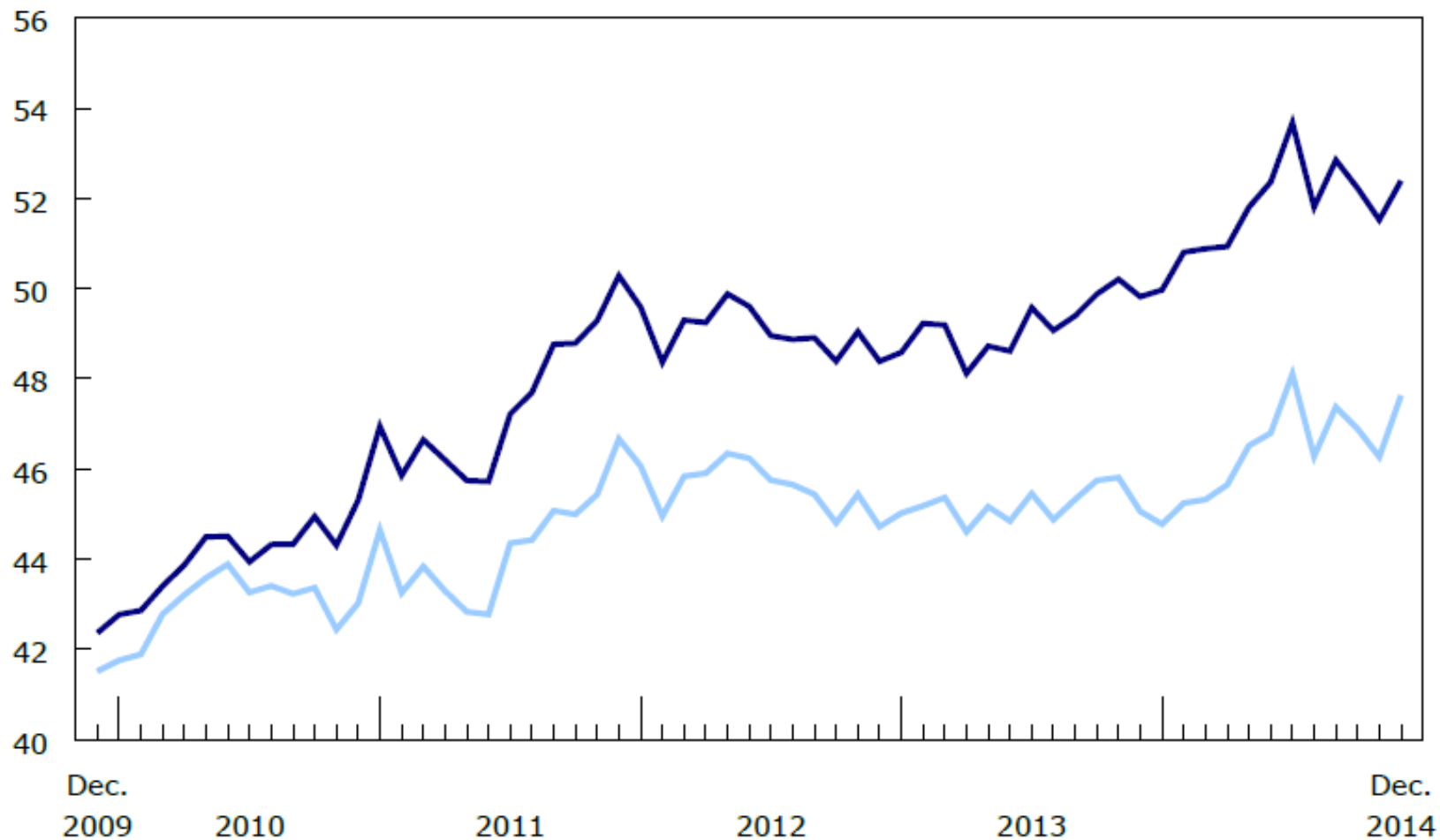


Chart 1

Manufacturing sales increase in December

billions of dollars



WHAT TO WATCH FOR, WHAT TO CHANGE?

Reading Headlines

Oil slump won't prevent Canadian economy from growing: Harper

(True, not simple. There will be hardship. Poles. Take advantage of growth areas, vulnerable to decline)

Canada's economy slows, but still beat analyst expectations

(True inherent strengths of diversified economy, still shoes to drop)

Manufacturing drives the Canadian economy to a strong finish in 2014

(Despite competitive pressures, inherent strength, risks)

Canadian Economics when Oil Sands Grow Slowly – What to Watch for?

- Impact of slower growth on Alberta, provincial finances, federal finances.
 - Relative strength of fossil fuels and rest of Alberta Economy.
- Impact of slower growth on other economic sectors.
 - Short term problems/strengths, longer term potentials
- Growth in manufacturing and other sectors
 - Relative Growth of BC, Ontario and Quebec.
 - U.S., China and European Economy
- Building new lines of business everywhere: Energy planning key area
- Governmental Response: Gimmicks vs. Leadership

Prospects for Clean Energy

- Since 2009, 8% increase in capacity of renewables – largest growth solar and wind.
- Since 2009, \$24 billion invested.
- Since 2009, 2200 direct jobs.
- One 2012 comparison of employment:
 - Clean Energy 23,700
 - Oil Sands 22,340

How does Canada Grow with less robust fossil fuel industry?

- Strengths in Diversified Economy
- Development Choices made now are crucial
 - Transitions
 - Broader Goals
- Energy
 - Changing use in Canada
 - Smaller part of economy
- U.S. - What not to do on Energy Policy?
 - Hint: Don't deny reality.