

Trudeau Should Cut His Losses on the Trans Mountain Pipeline

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Justin Trudeau is in over a barrel. In 2015, he made a deal with Alberta. He would get an oil pipeline built to a coast if the province joined his pan-Canadian climate plan. After his election this past April, Conservative Alberta Premier Jason Kenney ripped up Alberta's side of the bargain and declared war on Trudeau's climate plan.

What should Ottawa do now after being jilted by Alberta?

Should the Liberal government maintain its side of the bargain, and proceed with the expansion of the Trans Mountain pipeline from Edmonton to the Vancouver area and lose credibility as a climate warrior? Or should it kill the pipeline expansion now and say this was a bargain gone bad?

In the long run, the latter course would save Ottawa lots on further subsidies. But there's that little short-run thing – the looming federal election on or before Oct. 21.

How could Trudeau explain taking a big loss of taxpayer money on a pipeline that no private sector investor would touch last year? Either choice will look bad. No good options is a predicament.

Kicking the can down the road beyond the federal election is one way out. But Natural Resources Minister Amarjeet Sohi promised a decision by June 18.

Remember Justin Trudeau's grand entry onto the world stage at the Paris Climate Summit in November-December 2015? Canada is back, my friends. That was just six weeks after his stunning electoral upset, leapfrogging his party from third to first place, winning a solid majority.

In Paris, Trudeau and Environment Minister Catherine McKenna promised to catapult Canada from environment laggard under Conservative Prime Minister Stephen Harper to a global climate leader. While most rich countries at the Paris talks aimed to limit global warming to a 2 C rise above pre-industrial levels, Canada joined low-lying island states to champion a stricter 1.5 C global limit.

How then did Trudeau get stuck with a pipeline that makes no environmental or financial sense?

The pipeline is not going to change the fundamental disadvantages of Alberta's oilsands. At \$90 a barrel for new projects, their break-even cost is among the highest in the world. And

their emission intensity is through the roof. Environment and Climate Change Canada scientists found that CO2 emissions were more than 60 per cent higher than industry had calculated.

The sands are in a remote part of a remote, landlocked province. Their main market – the U.S. – where 99.9 per cent of Canadian oil exports now head, is now their main competitor. The U.S. produces cheaper, lower-emissions oil.

The idea that the Trans Mountain expansion would open new markets in Asia is illusory. The price of heavy, sour crude oil in the Far East is \$1 to \$3 a barrel lower than on the U.S. Gulf Coast. Transport costs via the Trans Mountain line and tankers will be at least \$2 a barrel higher to Asia. China does not have the capacity to refine bitumen. Besides, the world is swimming in light crude oil.

In recent years, only a few oil tankers have left Vancouver harbour. Most of that oil has gone to the U.S., not China. So the premise behind the Trans Mountain pipeline is faulty. The pipeline expansion will likely be a white elephant, owned or subsidized by taxpayers.

The pipeline expansion could cost up to \$10 billion, in addition to the \$4.4 billion purchase price that the auditor general said was \$1 billion too much.

If by some miracle the Trans Mountain pipeline expansion is built, gets filled to capacity and finds markets, it would encourage the production of 590,000 barrels a day more oil from Alberta's sands. That would add another 13 to 15 megatonnes of carbon pollution.

So it doesn't make environmental sense either.

The Trudeau government got a special exemption in the new NAFTA (USMCA) to enable it to subsidize the Trans Mountain pipeline.

Why would a government so publicly committed to climate action throw more good money at a dodgy pipeline expansion, especially when Alberta has torn up its side of the climate understanding? Better to cut your losses now.

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